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The Economist

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Politics this week

Nov 6th 2003
From The Economist print edition

More deaths in Iraq

EPA

In the worst day of casualties for the Americans since they invaded **Iraq**, 15 of their soldiers died when a helicopter was shot down near the rebellious town of Fallujah, west of Baghdad. Then, for two nights in a row, the ruling Coalition Provisional Authority's seat in the capital was attacked with mortars. American troops captured two former Iraqi generals in Fallujah. Meanwhile, the Senate endorsed President George Bush's emergency package for Iraq and Afghanistan. It is worth $87.5 billion, of which around three-quarters will be used to pay for military operations.

See article: That awful Vietnam comparison

Senior **Israelis** and **Palestinians** held behind-the-scenes discussions to revive the stalled “road map” to peace. A 16-year-old Palestinian blew himself and nobody else up in the West Bank when he was stopped on suspicion of trying to take a bomb into Israel.

See article: Can the stalemate between Israel and Palestine be broken?

A court in **Zimbabwe** began to hear an appeal by Morgan Tsvangirai's opposition Movement for Democratic Change, which argues that Robert Mugabe's victory in last year's election was rigged.

See article: What Zimbabwe costs Africa

The Democratic Alliance, **South Africa's** biggest opposition party, and the Zulu-dominated Inkatha Freedom Party have made an alliance for next year's general election.

Power-grab

Sri Lanka's president, Chandrika Kumaratunga, declared a state of emergency after suspending parliament and sacking three senior ministers. She accused the government of making too many concessions to Tamil Tiger rebels and threatening national security. Critics say she is trying to undermine her peacemaking prime minister.

See article: A war within a war

A draft constitution was unveiled in **Afghanistan**. It calls for the creation of an Islamic republic with a strong presidential system. But it does not incorporate *sharia*, or Islamic law.

See article: Afghanistan's new constitution

The fraud conviction of Pauline Hanson, leader of **Australia's** One Nation party, was overturned.

Flooding caused by torrential rain on the **Indonesian** island of Sumatra has left over 100 people dead.

At a summit meeting in Beijing, the leaders of **China** and **Pakistan** signed a number of agreements to improve relations. But there was no deal on Chinese help to build a nuclear-power plant in Pakistan.

Oil-fired power

Mikhail Khodorkovsky, the “oligarch” jailed last month on charges of fraud and tax evasion, resigned as chief executive of Yukos, **Russia's** biggest oil company. A Russian minister also threatened to deprive Yukos of operating rights to some oilfields, though this plan was later disavowed by President Vladimir Putin.

See article: The continuing battle between Yukos and the Kremlin

First results from **Georgia's** general election gave a narrow lead to a block supporting President Edward Shevardnadze, but an opposition party will be the biggest in parliament. The election was marred by spectacular voting irregularities.

AFP

See article: A region in political turmoil

The European Commission issued its annual reports on the readiness of the countries queuing up to join the **European Union**. It ranked Poland as needing to do the most before it joins next May. Also, for the first time, it explicitly linked Turkey's desire to open negotiations on entry with its willingness to settle the Cyprus dispute.

See article: New reports on EU candidates

An explosion at the Turkish embassy in **The Hague** injured five people. Early reports suggest that there was no political motive for the attack or any indication of terrorism.

An opinion poll commissioned by the **EU** ranked Israel as the greatest threat to world peace, ahead of Iran and North Korea. The European Commission said it would change this unfortunate perception by asking the question differently in future. Meanwhile, Germany's government sacked a top general for anti-Semitic remarks.

Credit limit

Brazil's finance ministry said that it was seeking a new, $14 billion loan from the IMF to replace its current $30 billion loan programme, which expires in December.

See article: Brazil's reviving economy

A court in New York suspended judgment for 90 days on a request by creditors to seize Argentine government assets. The judge said he wanted to grant more time for **Argentina** to reach an agreement with the holders of defaulted bonds. Meanwhile, in Buenos Aires, angry citizens staged a protest against a crime wave. President Néstor Kirchner blamed corrupt police for a rise in kidnappings.

See article: Argentina's crime wave

The General Assembly of the United Nations voted by 179 to three to condemn the United States' four-decade trade embargo against **Cuba**.

President Álvaro Uribe asked **Colombia's** Congress to approve a bundle of tax increases and spending cuts worth around $1 billion a year. They are needed to stabilise the public debt after the failure of a referendum on fiscal reform last month.

South perk

The Republicans strengthened their grip on America's South by gaining two governors. Haley Barbour defeated a first-term incumbent Democrat, Ronnie Musgrove, in **Mississippi**. **Kentucky** got its first Republican governor for 32 years, Ernie Fletcher.

See article: The Democrats have a bad week

John Street, the Democratic incumbent, easily defeated his Republican rival, Sam Katz, in **Philadelphia's** mayoral election. Mr Street won despite nationwide media attention on his entanglement in an FBI probe into corruption.

President George Bush toured areas devastated by wildfires in southern **California**. Two weeks of blazes left 24 people dead and over 3,500 houses destroyed. Some 80,000 evacuees gradually returned to their homes.

Gene Robinson was consecrated as the Episcopalian **bishop** of New Hampshire. The ceremony was marred by protesters opposed to the appointment of an openly gay man to the position.

Reuters

See article: Anglicans

Mr Bush signed a law banning late-term **"partial-birth" abortion**—the first federal restriction on abortion for three decades. It was immediately blocked in Nebraska by a court injunction, the first of many legal challenges.

Gary Ridgway, a 54-year-old painter from Auburn, Washington, confessed to **murdering 48 women** in what became known as the Green River killings.

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Business this week

Nov 6th 2003
From The Economist print edition

A family affair

A whiff of nepotism and the outrage of shareholders accompanied the appointment of **James Murdoch** as the new chief executive of BskyB. His father, Rupert, is chairman; Murdoch senior's News Corp owns just 35.4% of the satellite-TV firm. To assuage investors, two new independent board members were proffered and a dividend was promised. Despite James's success at Asia's StarTV, many suspect that dad will continue to pull the strings anyway.

See article: Face value: James Murdoch

Gucci lost some sparkle. Domenico De Sole, its chief executive, and Tom Ford, its chief designer, will quit the French luxury-goods business next year. The pair, who revived Gucci's fading appeal, failed to agree new contracts with Pinault-Printemps-Redoute, Gucci's majority shareholder.

See article: Gucci's stars quit

Wal-Mart, the world's largest retailer, was told that it faced a grand-jury investigation into accusations that it had broken immigration laws. Some 250 cleaners hired by a contractor were arrested in raids on 60 stores in October for working in America illegally.

Corporate crime

Richard Scrushy, a former chief executive of **HealthSouth**, was charged with 85 offences, including money-laundering, conspiracy and fraud, connected with a $2.7 billion accounting scandal uncovered earlier this year at the American health-care firm.

A judge approved plans for **MCI** to emerge from Chapter 11 bankruptcy. The American phone company, formerly known as WorldCom, sought protection 15 months ago after admitting it fabricated $11 billion in profits. Competitors argue that MCI will gain significant advantage after $35 billion of debts are wiped out.

See article: American telecoms and WorldCom

Microsoft launched a campaign to protect its software from viruses and improve internet security. Rather than a complicated technological fix, the software giant put a bounty of $250,000 on the heads of the writers of two recent viruses.

Tyco said that it would shed 7,200 employees as part of a restructuring package aimed at slimming a conglomerate made unwieldy by the disparate acquisitions of Dennis Kozlowski, a former chairman. The Bermuda-based company also announced a quarterly loss of $297m. Mr Kozlowski is currently on trial, accused of looting Tyco of hundreds of millions of dollars.

Americans irritated by unsolicited telemarketing calls will be gratified to hear that a $780,000 fine was imposed on **AT&T** for bothering householders on its own “do not call” register. The phone company is the first to fall foul of a ban on calling Americans who just want to be left in peace. Some 54m people have signed on to a national “do not call” register; 51,000 have complained so far.

Back on trial

Frank Quattrone, a former star technology banker at CSFB, is to face a retrial on charges that he obstructed justice in an investigation into the allocation of hot tech stocks. A previous trial was abandoned after the jury could not agree on a verdict.

The Securities and Exchange Commission reacted to charges that it was slow to investigate improper trading practices by **mutual funds**. A senior official resigned and charges were brought against seven former employees of Prudential Securities. Meanwhile, Lawrence Lasser, the head of Putnam Investments, resigned a week after two former managers were charged with securities fraud.

See article: Mutual Funds

John Reed, interim boss of the **New York Stock Exchange**, unveiled plans to revamp governance. He nominated eight worthies to a new independent board, including Madeleine Albright, a former secretary of state. Almost all of the current 27-strong board of Wall Street insiders will go. Controversially, Mr Reed made no moves to separate the exchange's regulation from its other functions.

See article: The New York Stock Exchange Battles for its future

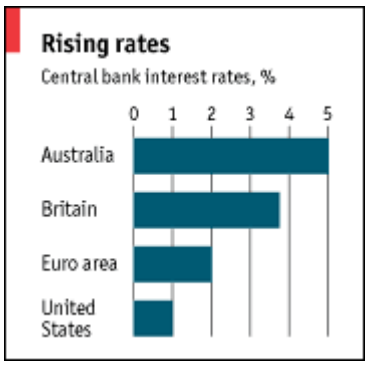
BNP Paribas surprised with the announcement that profits in the third quarter had jumped by 69% compared with a year ago, to *euro*970m ($855m). The bank, one of the euro area's biggest, made handy returns on its investment as stockmarkets rallied.

Credit Suisse reported a profit of SFr2 billion ($1.5 billion) in the third quarter after a heavy loss a year ago. Private and retail banking did well; CSFB, the investment-banking arm of Switzerland's second-largest bank, was less successful.

Rates of change

The Reserve Bank of Australia beat the Bank of England and raised **interest rates** by a quarter of a percentage point to 5%. Later, the Bank of England also added a quarter point to take its rate to 3.75%. Observers believe that economic recovery and a rapid expansion of credit will force other central banks to follow suit.

See article: Higher interest rates and the housing market



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America versus the world

Greatest danger, or greatest hope?

Nov 6th 2003
From The Economist print edition

Yes, America is different. But it always has been. Mostly, the difference is good for the world, not bad

UNTIL a little over two years ago, the fashionable topic for debate in conferences, opinion pages and even bars around the world was whether globalisation was really Americanisation, and whether that was a good or a bad thing. Now, few pundits anguish about whether their countries are having to become more like America. The fashionable source of anxiety in both Europe and Asia is whether America is becoming so different from everywhere else that it is becoming a problem for the world, not a solution. It is not just a reckless Bush administration leading America astray, in other words. On this view, the United States is now inherently assertive and unilateralist, and so can no longer be trusted to lead the world. Instead, it should be feared.

Inevitably, Iraq is the crucible for this debate, though other events and actions—the Kyoto Protocol, the anti-ballistic missile treaty, the International Criminal Court, Guantanamo Bay, federal budget deficits, even cotton subsidies—are being called in as thesis reinforcements. Yet Iraq ought also to cast this debate in a colder, more sobering light. Will it be better for the world if America succeeds in bringing stability, prosperity and even democracy to Iraq, or if it fails? Is it American competence that is feared, or incompetence? If America, under George Bush or a Democratic rival, were to withdraw hastily under the pressure of attacks such as the downing in Iraq on November 2nd of a military helicopter (see article), would that be an encouraging sign of humility or a devastatingly irresponsible act? Given that foreign voices were so keen to disparage America for withdrawing from Somalia in 1994, for failing for years to intervene in the Balkans, for having “allowed” the Taliban to take power in Afghanistan, and for being reluctant recently to send troops to Liberia, why should so many be hostile now to intervention in Iraq?

Exceptionally exceptional

One answer to this final question is that incoherence is one of the luxuries of impotence. Those who cannot, or will not, take responsibility themselves feel free to snipe at those who do. Another is that it is natural to feel afraid when dramatic, ambitious actions are being undertaken, for the consequences of such actions can themselves be dramatic. But a further answer is that to the outside world America is a strangely puzzling country—strangely, given the openness of its society and the abundance of information about it—and at times the puzzlement turns to worry. This is one of those times.

Such times have, however, occurred ever since the country was founded. As our Washington bureau chief writes in his survey this week, “A nation apart”, the very phrase “American exceptionalism” that is so often heard these days was first coined by Alexis de Tocqueville in 1835-40, when that brilliant Frenchman wrote his “Democracy in America”. Many of the things he pointed out then as profound differences between America and other countries continue to be remarked upon today—its vociferous democracy, its decentralisation, its liking for voluntary associations, the intensity of its people's religious belief. Even during the cold war, which critics like now to describe as a time when fear of the Soviet Union acted as a bond between Americans and others, today's sorts of worries were commonplace. Graham Greene's “The Quiet American” (1955) complained that naive American idealists did more damage than good. Countless films, whether made by Americans or by foreigners, raised worries about a

sinister military-industrial complex, about reds-under-the-bed obsessiveness, about zealotry.

Two other things, though, need also to be observed. One is that in recent years it is true that some of America's distinctiveness has become more marked. That is so in economics (working hours, productivity, innovation), society (population growth, religious belief, patriotism) and politics (a win-at-all-costs partisanship). Indeed, the combination of demographic vitality and productivity-led economic vigour is likely to make America even stronger in future, not weaker, despite the fact that high federal budget deficits could force some strength-sapping tax rises (see article). At least in economics, other countries are again going to have to try to follow some of America's example, if their living standards are to be kept high and unemployment low.

Democracy as solution, and as problem

The second observation, though, is that some elements of American distinctiveness divide America just as much as they divide it from others. Religious, puritanical, conservative Americans (mainly Republicans) are ranged against more secular, hedonistic, tolerant ones (mainly Democrats). Until the 2002 mid-term elections, carried out under the shadow of September 11th, successive polls had showed America to be a “50-50 nation”. Both parties can find trends that could favour them in future: demography could favour Democrats, while economic drive and patriotism may favour Republicans. In America's cacophonous and hyper-active democracy, this means that actions and adventures tend to be self-regulating, at least over a period of years. Yet that offers both reassurance and worry: it may moderate excesses, and curb the influence of lobbies such as the religious right; but it could also encourage cutting and running from messes overseas.

If that were to occur, it would be a disaster for America and a tragedy for the world. The basic dilemma that was faced in Afghanistan and Iraq was that doing nothing and intervening both looked bad and risky options, but that doing nothing looked worse. In the Middle East as in Central Asia, intervention has been painful and progress has been stumbling. But despite the continued instability in both countries, life is better in both than before the intervention occurred; and much, much better than if al-Qaeda's terror camps had been left in place or if Saddam Hussein had been left in power. As the next leader argues, more needs to be done in Afghanistan, and at least some of it is likely to be. In Iraq, however, if the casualty toll among American forces keeps rising it could well prompt influential voices in Washington, including among Republicans, to press Mr Bush to declare victory and retreat.

Fortunately, he is unlikely to. The flip side of some of the things critics dislike about him—a black-and-white view of the world, a tin ear for dissenting views—makes him also show a stubborn determination. Put more favourably, he is a man with a sense of duty. Put more cynically, perhaps, he is a man who will be keenly aware that early withdrawal will look like failure, and such failure would be politically suicidal.

By intervening in Iraq, against the majority of world opinion but with the courage of its own convictions and the support of a few allies, America showed that it was indeed a different nation from others: one prepared to shoulder responsibilities and to do what it thinks is right. Such behaviour is alarming precisely because it is bold and, by today's standards, different. It is never likely to bring forth a cascade of praise or gifts. It was done, however, in a way likely to reinforce the concern, as administration officials poured abuse on their foreign critics and, through their violations of human rights, damaged America's own moral authority. Now, though, the argument has to be won by creating facts on the ground. If the facts are of failure, America will be likely to shrink back into its shell. But success is there to be had. It will take a long, costly and painful effort. Only once it is done, however, will hope be restored and danger dispelled.

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Afghanistan

Small steps

Nov 6th 2003
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Afghanistan is starting to get a few things right. But outsiders still need to do much more

Get article background

AS IN Iraq, good news has been in short supply in Afghanistan. A spate of attacks on aid workers has made much of the country's south a no-go area for relief, let alone reconstruction efforts. Last week, the United Nations gave warning that opium production has risen in the past year, to levels exceeding those seen before the Taliban brutally enforced a ban on the crop. Skirmishing between rival warlords continues in the supposedly peaceful north, even while America's forces along the border with Pakistan have been coming under fierce attacks from Taliban and al-Qaeda remnants there. It is increasingly tempting to write off the American-led coalition's adventure in Afghanistan as a costly mistake, and to despair of rescuing that blighted land from the cycle of failure and war that has been its lot for a quarter of a century.

Tempting, but wrong. Those inclined to see glasses as half-full rather than half-empty can point to some grounds for qualified optimism. One is the publication this week, only slightly delayed, of a draft constitution for Afghanistan, likely to be approved next month (see article). The draft has much to recommend it. By declaring Afghanistan an Islamic republic whose law will conform with Islamic precepts, but not impose them slavishly, it appears to have bridged a gap between the country's modernisers and the traditionalists who wanted full-blown *sharia* law, stonings and all. The constitution vests most authority in an elected president whose powers will not, as was once proposed, be checked by a prime minister. In principle, this might produce an over-strong leader at the centre, but could produce effective government if the conciliatory incumbent, Hamid Karzai, gets the job.

There are other reasons for hope. Gradually, Mr Karzai has started to assert the role of the centre against the regional commanders. He has already persuaded them to start paying taxes to Kabul (though the amount will surely be modest), and has replaced the governors of Kandahar and Gardez. The warlords of the north, Rashid Dostum and Atta Mohammed, have been summoned to jobs in Kabul—though it is still far from clear that they will heed the summons without some vigorous American arm-twisting. A national army, which has a vital role to play in employing the young men who currently serve Afghanistan's numerous private armies, is starting to take shape. The $287m earmarked for it in the Iraq-Afghanistan appropriation approved by the American Senate this week could make a significant impact. And all the while, in areas like Kabul and Herat that are relatively safe, the economy is slowly starting to revive. Compared with the repression of the Taliban, or the appalling slaughter of the early 1990s, the fortunes of much of Afghanistan are greatly improved.

All this is evidence that Afghans can indeed help themselves, if only they are given a chance. But the recovery, such as it is, is fragile. Outsiders can do much more to help it along, especially now that America has stopped insisting dogmatically that it is not in the business of “nation-building”.

Pay up, or watch this state fail again

Money is the foremost requirement. Afghanistan has been treated less generously than other post-conflict states, such as East Timor, Bosnia and now Iraq. The American Congress this week allocated $18.6 billion for rebuilding Iraq, but only $1.2 billion for Afghanistan, even though Afghanistan has more people, more pressing needs and fewer resources of its own (apricots, not oil). Other pledges amount to only $4.5 billion over five years. This is not nearly enough. Until roads are rebuilt and the smashed

irrigation system repaired, Afghan farmers have no real option but to grow opium, with baleful consequences for both internal politics and the outside world.

As in Iraq, however, money is hard to spend effectively in an atmosphere of lawlessness and violence. And though NATO has taken over command of ISAF, Afghanistan's tiny peacekeeping force, it has not tried hard enough to extend its remit beyond Kabul. To be effective, more outside troops are needed, together with a greater willingness to use them to face down the warlords, some of whom have bigger barks than bites. Finally, the country needs to arrive at a fairer distribution of political power. By helping America in the war, the Tajik minority ended up with too much control. This undermines Mr Karzai's authority among his own frustrated Pushtun majority, the very group from which the Taliban regime drew its core support. But once a constitution is in hand, the way will be open for a nationwide election that should in due course help redress the balance.

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Corporate dynasties

A family affair

Nov 6th 2003
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Reuters

Why good governance is vital for public companies with a big family investor

ON ALL the world's stock exchanges, families own substantial stakes in a surprisingly large number of quoted companies. Even in the United States, the founding family is an influential investor in more than one-third of the Standard & Poor's 500 companies. Across the Atlantic, BSkyB, a British satellite-television firm, provides another example: Rupert Murdoch controls 35.4% of BSkyB through News Corp, one of the world's largest media groups, where he is also chairman and the largest shareholder. In September, Tony Ball, BSkyB's talented chief executive, stepped down for suspiciously flimsy reasons. This week the chairman's son, 30-year-old James Murdoch, got his job.

Murdoch junior may be a talented executive (see article). Thanks to his father, he has had the chance to hone his skills running another Murdoch company in Asia. But in corporate-governance terms, the decision is indefensible. The nomination committee, chaired by Lord St John of Fawsley (on the board for 12 years), claims to have undertaken an arduous search. One British satirical paper suggested that applicants should leave their envelopes on the breakfast table, addressed to Dad. Shareholders are enraged, rightly fearing that BskyB's interests may not always coincide with News Corp's or Murdoch senior's. Yet the row also points to a broader dilemma: how to make the most of the strengths of family businesses, but avoid their potential weaknesses?

For the irony is that quoted companies in which families have influential stakes seem to be, on average, good bets for outside investors. BSkyB has served shareholders well; so have the families that dominate other quoted companies. Research by Ronald Anderson of American University and David Reeb of Temple University on family-dominated companies in the S&P 500 shows that, on average, the family owns nearly 18% of the equity. Its control of the board tends to be disproportionately large. Yet such firms are both more profitable and better market performers than non-family firms. The effect on profitability is especially striking when a family scion is chief executive.

Why might this be? Earlier research had suggested that family members may be tempted to run the company at the expense of other shareholders, and there are plenty of examples of such businesses, such as Adelphia Communications, dominated by the Rigas family; or the family may shove in a second-rate scion to manage things, as at Wang Laboratories, run into the ground by the founder's son. But

against this, family investors are likely to take a long-term view (the DuPonts have been investing in the family chemicals company for two centuries); their own reputation is linked to the company (Bill Ford's name is on the cars); and they may well know the business inside out, if they have grown up with it.

The key difference between the family firms that benefit from their connections and those that do not is the independence of the board. Further research by Messrs Anderson and Reeb suggests that quoted family firms whose boards are laden with lackeys do badly, and those with strong directors do better. Family firms, even more than others, cannot afford bad corporate governance. The board must be able to tell the family when it has gone too far—and expect its advice to be heard. This has obviously not happened at BSkyB. Rupert Murdoch's determination to force his son down the throat of other shareholders is an ominous sign for the company's future.

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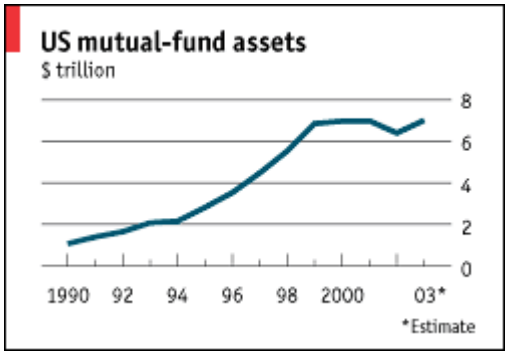
Mutual funds

Skimming

Nov 6th 2003
From The Economist print edition

America's mutual funds need a more alert regulator



SOLID, squeaky clean and somewhat dull. Until two months ago, this had been the image of America's mutual-fund industry, which had not been sullied by a single scandal for decades. And the industry has boomed on the back of its reputation as a safe way to invest in shares and bonds. Today almost 95m Americans have money invested in mutual funds, many through retirement plans supported by their employer, many others directly as investors. The success of America's mutual funds in promoting private investment in stock and bond markets has become the envy of the world.

So it came as a real shock in September when Eliot Spitzer, New York's ambitious, boat-rocking attorney-general, first accused big mutual funds of illegal trading practices. Since then, a stream of revelations and allegations has shaken the entire industry. Fund managers have resigned, been sacked and charged with fraud. And there is still no end in sight to the scandal's spread. This week the energetic Mr Spitzer, along with others, testified before Congress, warning that there was much more to come. He has also lambasted the Securities and Exchange Commission (SEC), the federal agency which is the primary regulator of mutual funds, for being “asleep”. For its part, the SEC has launched its own investigations and promises to unveil new mutual-fund rules later this month.

But the industry may not, in fact, need a raft of new rules so much as better enforcement of the existing rules, and more active monitoring. The striking thing about the two main practices which Mr Spitzer has uncovered is how widespread, and apparently widely accepted, they were in the industry. One of these—so-called “late trading” of the fund's shares after the official 4pm deadline—was clearly illegal, but seems to have been regarded as a mere bending of an arbitrary rule. The other practice, “market timing”—the rapid trading in and out of the fund to exploit the difference in the fund's price and the fluctuating value of its underlying shares—is not technically illegal, the industry's defenders have said, *sotto voce.*

The details of both practices, and how they became so common, are complex (see article). But they are not mere technicalities. Their significance is clear: fund managers were quietly skimming money from millions of investors, for the benefit of the fund managers themselves, or letting other professional market operators do so for favours in return. Both practices gave insiders a trading advantage at the expense of millions of outsiders who had entrusted their money to the funds. Market timing may not have been banned by law, but most funds had promised not to do it, and so were committing fraud when they did. Moreover, both practices breach the basic obligation of fund managers to treat all their investors the same.

Mr Spitzer now threatens that he will “litigate until these companies do not exist any more” if mutual funds found guilty of abuses do not fully compensate shareholders for their losses and hand back their management fee. Perhaps the most egregious examples should be pursued in this way. But Mr Spitzer should not be left to forge his own settlement with the industry as a whole, as he did with the country's leading investment banks. It is the job of the SEC, not an official of one state government, to clean up mutual funds' shady practices.

Rise and shine

A few new rules may be required. Market timing should be banned outright. The funds' boards of

directors should, at last, be required to be more independent. The fees which investment managers charge, and how much they earn, should be made more transparent and comparable to enable investors to shop around. But, most of all, the SEC needs to monitor the industry more closely. That should not be impossible. Mutual funds are not riddled by potential conflicts of interest like many other parts of banking and finance. Fund managers have only one obligation, to act in the best interests of all their investors. Holding them to that obligation should be an achievable goal for a wide-awake regulator.

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About sponsorship

Anglicans

In praise of holy fudge

Nov 6th 2003
From The Economist print edition

Anglicanism is founded on ambiguity. So stay ambiguous, then

AFP

OUTSIDERS may feel a little baffled by the current furore in the Anglican church. Why should the first consecration of an openly gay bishop, in America, be quite so bothersome? There are already plenty of gay clergy. The modern world largely accepts homosexuality as a natural feature of human life; this newspaper regards discrimination based on sexual preference as no less abhorrent than racial prejudice.

Christian churches have been struggling with the issue for decades. The Bible thunders against homosexual (and heterosexual) promiscuity. Yet it has nothing to say about long-term gay relationships. Is that because they are a modern phenomenon? Or are they no better in principle than the practices that doomed Sodom and Gomorrah? And if homosexuality should be tolerated or accepted, how publicly and where?

So most denominations have internal disagreements, but settle them in different ways. In some churches any argument is a short one. A Roman Catholic priest or bishop, for example, who publicly defies the Vatican's line that homosexuality is a “disorder” risks losing his job.

No principles, please, we're Anglican

Oddly, it is the lack of central authority in the Anglican communion that makes the current row so acrimonious. The Archbishop of Canterbury, Rowan Williams, is a figurehead leader, not a pope-like boss. So if American ultra-liberals want a gay bishop, he cannot stop them, and if the majority of traditional-minded believers object, he can do little to help.

That majority sees a respect for consensus as the guardian of their interests. The church's last big international conference had agreed a compromise on homosexuality, of private tolerance but no public acceptance. It precluded actively gay bishops; now one bit of the church has flouted it.

Yet the excited talk of a schism is overblown. Some dioceses, especially in Africa, will break, or downgrade, their links with the North American Anglicans. Some traditionalist parishes will disown their liberal-minded bishops and look for episcopal oversight from elsewhere. There will be rows about money too. Conservative parishes tend to be richer than the liberal-minded ones, especially in England, where the Anglican church is in headlong decline (see article).

All that will be untidy. But Anglicanism is already a very untidy affair, based from its foundation on a series of expedient but messy compromises. It claims to be both protestant and catholic. Anglican services vary hugely. Some parishes are filled with guitar-strumming hot-gospellers; others like archaic language, incense and candles. There are theological liberals who doubt the literal truth of most things in the Bible, and others who believe every word.

So there is probably room for a bit more ambiguity. The ordination of women threatened to split the church in two. In the end, some bits of the Anglican communion have female bishops. Other parts still do not ordain women at all. Dr Williams's line, of regretting the latest consecration but not condemning it, is probably wise. Nevertheless, he has set up a commission under Robin Eames, a brainy Irish Anglican

bishop, to look at the whole question of authority in the Anglican church. Should there be binding rules, and what happens to those that break them? These are sensible questions to ask, but the answers may be uncomfortable in a church with a fudge-filled history.

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Letters

Nov 6th 2003
From The Economist print edition

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Faulty fuel pump

SIR – If the world depended less on OPEC, the citizens of countries belonging to the organisation would benefit ("The end of the Oil Age", October 25th). Governments would have to make structural change and modernise to provide better public goods, such as health and education. This would create greater equality of chances, lessen income inequality, promote gender equality, dismantle cronyism, deepen the integration with the world economy, and thus erode many causes of regional and global political instability.

Marcus Marktanner
Beirut

SIR – You correctly quote my prediction of 1973 that an Arab oil embargo would have no effect ("Still holding customers over a barrel", October 25th). But there was a wider moral. The embargo was a non-event because there was only a single worldwide market. No country could be isolated for punishment or favour. Hence national self-sufficiency is, then and now, pointless and irrelevant to any consuming nation's security. Money spent for more self-sufficiency was and is a waste.

M.A. Adelman
Cambridge, Massachusetts

SIR – Hang on a minute: isn't OPEC already propelling us towards a hydrogen economy? If OPEC has managed to extract $7 trillion in wealth from American consumers, isn't this, in effect, a tax on them? And isn't demand for oil lower than it would have been if the price of oil had been at its true market-clearing level? OPEC is keeping oil prices higher than would otherwise be the case in a free market and curbing demand. This looks very similar to what you are proposing.

Anthony Sweeney
Darien, Connecticut

SIR – Your proposal for a "small but steadily rising tax on petrol" is unquestionably the only effective way to curb the demand for oil. It is particularly important in America. Here the low price of petrol, much less than half of that in other developed countries, has predictably resulted in ever-larger and heavier vehicles that consume more fuel and road, and generate more pollution, than is necessary. Unfortunately, talk here of higher petrol taxes is generally regarded as heresy.

Geoffrey Crask
Carlsbad, California

SIR – Of course energy taxes should be raised but why gradually? If taxes in the United States were raised so that energy costs tripled in two years, the increase would be viewed as a change to be dealt with rather than a nuisance to be avoided. The entire tax could be rebated at a flat rate to all Americans no matter how much energy they use, making such a shift moderately progressive. The faster America raises the price of fossil fuels, the quicker it will hasten the end of the Oil Age.

Geoff Berg
Warren, Rhode Island

SIR – Hydrocarbon fuels are the greatest productivity tools known to mankind. If you want to encourage productivity and economic growth why apply taxes here? This policy has been followed in Britain for so long that it has been accepted as an irrefutable dogma.

The proceeds from this unfair and regressive tax have become an essential component of the British government's tax revenues and not a glorious sacrifice in the interests of environmental protection. My bet is that the oil sheikhs are safely in place for the foreseeable future.

Dave Edison
Pittsburgh

Ukraine; no gain

SIR – Your report on Russia's western border ("Behind the crystal curtain", October 25th) reinforces my perception that economic and social progress in the former Soviet Union has been limited to a small sector of society. Russia has advanced the furthest but only in the larger cities. Belarus remains a country in the twilight zone and many people are genuinely afraid of the regime while reform-minded organisations are systematically repressed.

The depressing fact of life in Ukraine is the unrelenting bureaucracy that resists transparency and actively promotes rent seeking. Opening a small business is a frustrating, expensive and frequently futile exercise. There is no independent television and only very few independent newspapers.

Ukraine's advances since independence are fragmented. Without the political will to make fundamental changes in the social and economic structure Ukraine will creep along on a route that maintains the elevated position of a few oligarchs and their tribes, while excluding the vast majority from participation. Unfortunately, the attitude of many is that they can do nothing about it. Given the manipulation by those in power, this is understandable.

Theodore Roosevelt's admonition about the United States around a century ago applies with full force in Ukraine: "Behind the ostensible government sits enthroned an invisible government, owing no allegiance and acknowledging no responsibility to the people. To destroy this invisible government, to befoul the unholy alliance between corrupt business and corrupt politics, is the first task of the statesmanship of the day." Other than being not so invisible in Ukraine, the rest of the observation stands. And, there is no such statesmanship here today.

Richard Shepard
Kiev

Phone numbers

SIR – Your article about the co-existence of personal digital assistants and separate smartphones raises some interesting questions ("PDA, RIP", October 18th). However, the article states that fewer than 4m smartphones were sold worldwide in 2002, and fewer than 12m are expected to be sold during 2003. These figures are far off the mark because more than 40m smartphones (by almost any definition) were sold in Japan during each of 2002 and 2003. Could it be that Japan was overlooked?

Gerhard Fasol
Tokyo

The price is right

SIR – The opportunities for price differentiation on the internet has an interesting implication for socialist policymakers (Economics focus, October 18th). Perhaps the duty of a left-wing finance minister should now be to redistribute wealth information rather than redistribute wealth itself. Individual trades could then be priced according to affordability.

While the world has recognised the folly of trying to equalise incomes, an alternative could be to equalise purchasing power. This would not only align capitalists and socialists, but would increase total wealth.

Harry Powell
London

Off message

SIR – I am dismayed that no less staunch defender of liberty than *The Economist* should call for the dismissal of Lieutenant-General William Boykin solely on the grounds that his religious beliefs are unfashionable (Lexington, October 25th). Please set my mind at ease. Tell me that Lexington is moonlighting for the *People's Daily* and filed his other piece on the importance of religious freedom to his editors in Beijing by mistake.

Robert Robison
Tokyo

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America's deficits

A flood of red ink

Nov 6th 2003 | WASHINGTON, DC
From The Economist print edition

AP

America's fiscal position has deteriorated fast during George Bush's presidency. It will not be easy to reverse

LAST week's figures looked, at first, like vindication. The news that America's output grew at an extraordinary 7.2% annual rate between July and September, the fastest rate since 1984, was proof, said the White House, that the president's tax-cutting strategy was working. The economy was growing strongly, George Bush crowed, because “we left more money in the hands of the American people.”

Tax cuts are the central pillar of Mr Bush's economic strategy. He has chopped taxes in every year of his presidency, in all by as much as Ronald Reagan did in the early 1980s. His first tax package, signed into law in June 2001 and worth $1.35 trillion over ten years, was a campaign promise. It cut marginal income tax rates, gradually eliminated the estate tax and raised the child tax credit, ostensibly to make sure that the budget surplus was returned to Americans and not frittered away in Washington.

A year later, the emphasis was on stimulating the sluggish economy by giving firms tax incentives to invest. In May 2003 came another big tax plan, again sold as a stimulus, but designed mostly to shift the tax burden away from investment income by cutting taxes on dividends.

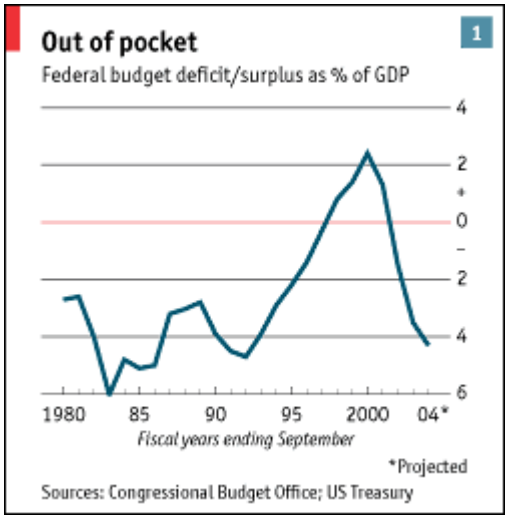
The buzz in Washington is that this tax-cut strategy will continue into election year. The White House is said to be working on a new tax package for 2004, focused on dramatically expanding tax-free retirement and savings accounts. Politically, the goal is to appeal to America's large, and growing, investor class. Economically, it would shift the tax burden yet further onto wage income. In time, most Americans' savings would be shielded from tax.

While Team Bush touts tax cuts, it never mentions the other hallmark of this administration's fiscal policy: soaring federal spending. For all his rhetoric about keeping Washington in check, Mr Bush, as one Republican analyst puts it, has been spending like “a drunken sailor”. The ever-widening war on terror, of course, accounts for much of that. According to an analysis by Veronique de Rugy at the libertarian Cato Institute, defence spending has jumped by 27% in real terms under Mr Bush, and just this week Congress approved his $87.5 billion supplemental request for Iraq. But non-military discretionary spending, (that is, spending that must be appropriated by Congress every year) has risen by 21%. Much of that increase is on homeland security, but not all. Mr Bush has merrily accepted spending bills stuffed with local pork. He has thrown money at America's farmers. He also supports a huge rise in hand-outs to America's elderly. With White House backing, Congress is about to include a prescription-drug benefit in Medicare, the government health-care plan for old people, in the biggest expansion of that programme

since it began in 1965.

The combination of a sharp economic slowdown, tax cuts and higher spending has transformed America's budget. When Mr Bush ran for office, the fiscal surplus was 2.4% of GDP, one of the highest among big rich countries. By fiscal 2003, the budget deficit had reached 3.5% of GDP. Next year, by official forecasts, it is expected to reach 4.3% (see chart 1).

According to the Bush folk, this shift is unfortunate but hardly worrying. America, they claim, was hit by an unprecedented combination of economic slowdown, terrorist attacks and stockmarket collapse. But now, boosted by tax cuts,buoyant growth coupled with disciplined spending will soon stem the red ink.



Not everyone shares this nonchalance. A poll by ABC News and the *Washington Post*, published on November 2nd, showed that 53% of respondents disapproved of Mr Bush's tax policy. The large cast of Democratic presidential hopefuls claim Mr Bush's tax cuts have been a giveaway to the rich, wrecking the economy and mortgaging the future for America's children.

More sober analysts are also worried. In their most recent poll, members of the National Association of Business Economists described the federal deficit as the biggest problem facing America's economy. A bipartisan coalition of three economic think-tanks—the Committee for Economic Development, the Concord Coalition and the Centre on Budget and Policy Priorities—recently declared that, without a change in course, the next decade might be the “most fiscally irresponsible” in the country's history.

Who is right? The stakes in this debate are high, affecting not just America's economic future, but the world's. Deciding whether to be nonchalant or nervous means answering three questions. How bad is America's fiscal position? What caused the deterioration? And how easily can it be reversed?

A question of time

In the short-term, America's fiscal shift has been dramatic but hardly dangerous. Growing deficits flow naturally from a sharp economic slowdown, as tax revenues fall and benefit spending rises. Part of America's fiscal deterioration over the past three years has come from a slower economy. In addition, tax revenues fell further than anyone expected after the stockmarket bubble burst.

Spending increases and tax cuts have reinforced that trend, worsening the fiscal position but at the same time bolstering the economy. Few disagree that the administration's aggressive use of fiscal stimuli—along with record low interest rates—helped stave off a sharper global economic downturn. And with plenty of slack still in the economy, today's budget deficit is unlikely to squeeze out private investment. Look only at the overall deficit and at the past three years, and America's fiscal deterioration hardly seems reckless.

The medium-term picture is a different matter. Budget rules require Congress's number-crunchers to project the impact of tax and spending decisions over the next ten years. The cut-off is arbitrary, and leads to much accounting chicanery. But it shows, if you look carefully, what a mess America's finances are in.

The official figures are still relatively rosy. Back in January 2001, the Congressional Budget Office (CBO), Congress's impartial number-cruncher, was projecting a cumulative budget surplus of $5.6 trillion. This figure was always mythical, largely because it assumed that much of the tax take of the bubble years would be permanent. But it captured Washington's imagination and led Alan Greenspan, chairman of the Federal Reserve, to fret publicly that the government, once it had paid off all its debt, would then have to invest in private shares. That fretting, in turn, paved the way for Mr Bush's first tax cut.

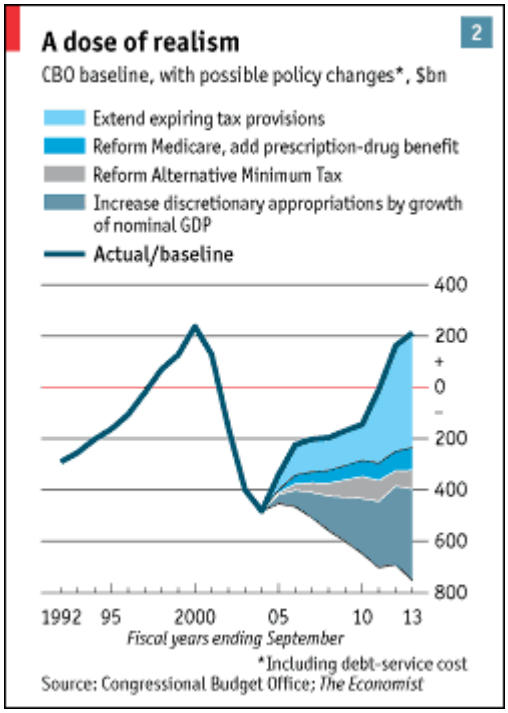
In its most recent projections, calculated in August 2003, the CBO expects a deficit of $1.4 trillion over the next decade, a huge shift from its estimates of three years ago. But, taken at face value, the fiscal outlook is still relatively benign. Deficits peak next year at 4.3% of GDP and fall gradually thereafter. By

2012 the budget is back in balance. America's debt/GDP ratio, currently at 37%, peaks at 40% in 2005 but is back down to 30% by 2013, far below the levels of many other rich countries.

Yet these official projections, and similar ones by the White House, bear no resemblance to reality. The CBO is forced by law to make extremely implausible assumptions both about taxes and spending. The White House does so because it suits Mr Bush's political purposes. No fiscal expert believes either of them.

To be more realistic, the budget forecasts need adjusting in four main areas:

Extending the tax cuts. To stay within Congress's budget rules, the Bush tax cuts expire at various points over the next decade. But no one believes they will die. For now, the best political bet is that Mr Bush's tax cuts are all extended—worsening the ten-year fiscal outlook by $1.9 trillion if interest costs are counted (see chart 2).



Reforming the Alternative Minimum Tax (AMT). In an attempt to stop rich taxpayers avoiding tax by over-using deductions, Congress introduced the AMT in 1969. It has a lower rate but allows virtually no deductions. If your tax bill is higher using the AMT formula, that is what you must pay. Traditionally, few taxpayers have been affected by it: 2.5m in 2002. However, the combination of Mr Bush's tax cuts (which reduce taxes under the traditional system) and the fact that the AMT is not indexed to inflation means that it will affect far more people in future: 33m in 2010 and 42m in 2014. Politically, that will be explosive. But simply indexing AMT thresholds to inflation adds $690 billion to the ten-year deficit.

Making spending more realistic. Budget rules require Congress's official number-crunchers to assume that discretionary spending grows only by the rate of inflation, projected to be an average of 2.7% a year. In fact, the average annual rise in discretionary spending over the past five years has been 7.7%. And according to a CBO analysis, the Bush defence plans imply a 20% real increase in military spending by 2020.

But what is a more realistic figure? The coalition of economic think-tanks last month reckoned that, at a minimum, the ten-year figure for discretionary spending needed to be $600 billion higher. If you take the official figures but assume spending rises in line with nominal GDP growth rather than just inflation, then the deficit rises by $1.6 trillion, once interest costs are included. If the spending patterns of the past five years are continued, the deficit soars by a whopping $3.3 trillion.

Expanding Medicare. Since it is not (yet) law, the official forecasts do not include the cost of a Medicare prescription-drug benefit. Officially, this will cost $400 billion over the next decade, though most health experts reckon that rising medical costs mean it will be much more.

Add these factors together, and America's budget outlook is far worse than the official forecasts suggest. Among Washington's independent budget experts, the consensus is that the official figures understate the cumulative deficit by about $5 trillion. Rather than a budget that returns to surplus by 2012, America is more likely to see deficits that average 3% of GDP over the next decade.

All these projections assume a healthy average rate of real GDP growth, at 3% a year. Faster growth would improve the outlook, but would not eliminate the spectre of deficits. Contrary to the Bush team's rhetoric, America does not have a small, temporary fiscal problem. It has a large and growing one.

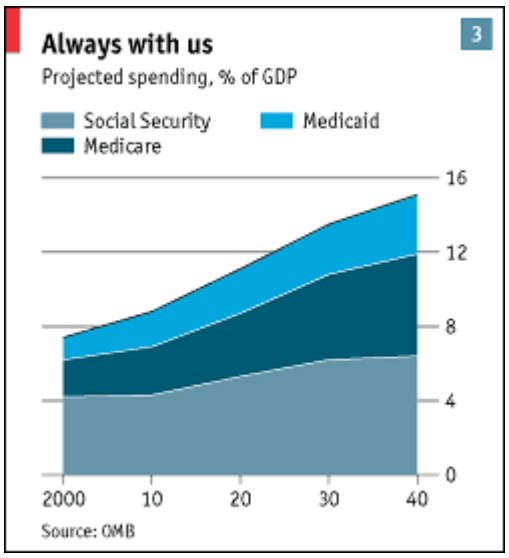
The economic consequences are indisputably negative. Big budget deficits reduce America's already abysmally low saving rate. As the economy's slack is worked off, Uncle Sam's demand for dollars is likely to crowd out private investment and reduce long-term economic growth. Even if the global capital market helps out, America is already enormously reliant on foreigners to fund its spending: the current-account deficit, the measure of annual borrowing from foreigners, is at an historic high of 5.1% of GDP. Big budget deficits will aggravate these external imbalances and so raise the risk of financial volatility, even a dollar crisis. Over the next few years, that is perhaps the biggest risk that Mr Bush's fiscal policies pose

for the world economy.

No Ronald Reagan

Grim as it is, the medium term appears rosy compared with America's long-term fiscal outlook. The retirement of the baby-boomers, increasing life expectancy and inexorably rising medical costs mean that the cost of funding America's commitment to its old people will soar over the next few decades.

The numbers are mindboggling. According to Jagadeesh Gokhale and Kent Smetters, in a study for the American Enterprise Institute, the gap between America's future tax revenues and future spending commitments for Social Security and Medicare is $44 trillion, or four times America's GDP. Put another way, government spending on entitlements is set to soar from around 7% of GDP today to 11% in 2020 and 15% in 2040 (see chart 3).



This will never happen. America, like all other rich countries, will be forced to cut entitlements and/or raise taxes to deal with its ageing society. In fact, with a younger and more fertile population, America is, even now, in a better position than many others in the rich world. Moreover, this long-term fiscal time-bomb existed long before George Bush became president, though his tax cuts mean that America will have fewer resources to defuse it.

One theory is that this was exactly what the White House intended all along. According to this reasoning, Mr Bush has two basic fiscal goals, both of which mark him out as a radical conservative reformer rather than a reckless spendthrift. The first is to starve government of money to force it to tackle entitlement reform. The second is to reform the tax code in the process, moving gradually away from taxing income towards taxing consumption.

Unfortunately, this attempt to impose logic on the Bush strategy is belied by the administration's own actions. For all the talk of Social Security reform, the only White House action on entitlements has been to expand them. The contrast with Ronald Reagan is revealing. The Gipper cut discretionary non-defence spending by 13.5% in real terms and made an effort to overhaul entitlements. In 1983 a commission on Social Security reform raised the retirement age as well as payroll taxes.

Look closely, and Mr Bush is also much less of a tax reformer than Mr Reagan was. In 1986, the Gipper presided over the biggest tax reform in modern American history. The tax base was broadened and rates were lowered, but the overall tax burden remained unchanged. Although Team Bush wants a reformed tax code, aimed at consumption rather than income, their strategy of tax reform via tax cuts will not produce a clean reform. Many of the subsidies and loopholes of the current system will remain. The result will be a narrower tax base, full of distortions, which shifts the burden of taxation towards poorer Americans.

The other big difference with the Gipper is that Mr Reagan was not averse to putting up taxes when too much red ink appeared. Taxes were raised several times during his presidency. Congressional rules on deficit reduction were introduced during Mr Reagan's second term. So far, at least, Team Bush has shown no such flexibility. There is no admission that America faces a fiscal mess, and no shifting from the mantra that all tax increases, at all times, are bad.

AP

Expect no help from the White House

The real reason to fret about America's fiscal outlook is that this self-delusion shows little sign of changing. The Democratic presidential candidates are just as keen to spill red ink as Mr Bush, though on different priorities. They would roll back some or all of the tax cuts, but then go on to spend much, or all, of the recouped revenues on health care. The real debate in Washington is still about where to direct the red ink, rather than how to reduce it.

At some point, however, both Mr Bush and the rest of Washington will be forced to leave this fiscal Neverland. When will that be? Many look to the late 1980s and early 1990s as a model. Then, years of persistent fiscal deficits persuaded Americans that belt-tightening was necessary. Budget rules were introduced, spending was cut and taxes were raised. It was politically painful (particularly for George Bush senior, who thereby lost the 1992 election). But the tide of red ink was turned.

This time the turnaround will be much tougher. There will be no “peace dividend” from the end of the cold war (indeed, the pressure on military spending may continue to increase). America is unlikely to see another stockmarket bubble, with its surge in tax revenues. As baby-boomers retire, the pressure from entitlement spending will be more acute. Set against this background, the path back to a sustainable fiscal policy will be extremely painful, even without any dramatic fiscal crisis. Long after Dubya is back on his ranch, Americans will be trying to recover from the mess he created.

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Politics and Iraq

The home front

Nov 6th 2003 | WASHINGTON, DC
From The Economist print edition

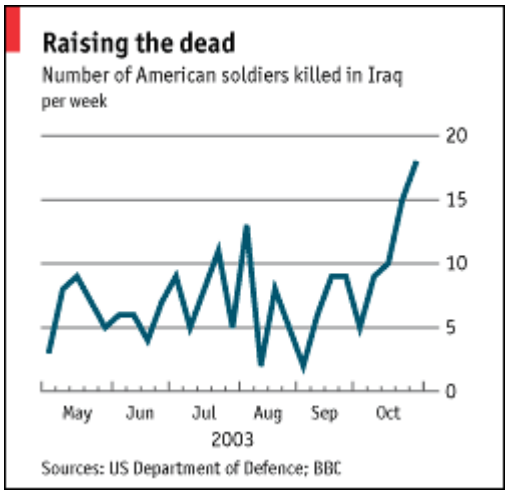
AP

Trouble in Iraq has turned American politics upside down. But this may not help the Democrats

Get article background

SIX months ago, national security seemed to be George Bush's greatest strength, the economy a possible Achilles heel. One year before Election Day 2004, the pattern has suddenly reversed itself. Because of surging third-quarter economic growth and the growing bloodshed in Iraq, Mr Bush is pointing happily to his economic record while all his potential Democratic challengers—not just the strongly anti-war Howard Dean—feel emboldened to attack his foreign policy.

The explanation for the change starts in Iraq. Americans have become increasingly concerned about rising casualties and the cost of war. The past week has been the deadliest for months. Eighteen American soldiers were killed in the first three days of November, 15 of them when a helicopter was shot down west of Baghdad. The toll was the more troubling for Americans at home because it came after a period of relative calm. In the five weeks between mid-August and late September, the American death toll had fallen to about four a week, as the occupation forces seemed to be putting their early problems behind them (see chart).



Last week, an opinion poll by the *Washington Post* found that for the first time a small majority—51%—disapproved of the president's handling of Iraq. More worryingly, increasing numbers are going beyond disapproval: only 58% say America should stay in Iraq, down from 72% in July. The number saying it is time to get out has risen from 26% to 38%.

Americans have usually been willing to support military action, however bloody, if they believe it to be justified and if they think they are winning. Americans still think the invasion of Iraq was justified. A poll by the Pew Research Centre this week finds that 60% of those asked think the decision was right, a proportion that has hardly budged over the summer.

So declining opinion-poll support should probably be seen as evidence of a failure by the administration to articulate its aims, and explain its military strategy, rather than a mere dislike of casualties. This failure takes many forms.

The inability to find weapons of mass destruction has made it harder for the president to explain the decision to go to war in the first place. Moreover, the administration did not prepare people for a protracted war. Although the president has now begun to talk about a “long hard struggle”, some of his supporters last spring said the war would be a “cakewalk”, and the Pentagon originally planned to reduce troop numbers to 60,000 by now (America still has 120,000 troops in Iraq, and even that by some accounts is not enough). This may explain why Americans are balking at the economic cost. Two-thirds say they oppose the $87 billion bill for the occupation of Iraq that the Senate passed this week.

The administration is also providing conflicting accounts of whom it is fighting. Official estimates of the number of non-Iraqi guerrillas operating in Iraq, for instance, have ranged from “a very, very small percentage” to several thousand.

As a result, the administration's claims to be winning seem unconvincing. It has taken to trotting out figures showing that the number of Iraqi security guards has doubled, or tripled; that more electricity is being produced, and more bank branches and schools are opening. All are no doubt true. But this is not the same as showing you have a clear plan to beat your enemy. To a growing number of people, the administration's argument that it is speeding up the training of Iraqis so that they can take over the job has a nervous ring.

A change at home

The administration's difficulties in Iraq have produced a significant change in domestic politics. The Democrats are at last trying to get themselves a coherent foreign policy. Last week saw two signs of this. One was the inaugural meeting of a new liberal think-tank, the Centre for American Progress, run by Bill Clinton's former chief of staff, John Podesta. The other was a manifesto by the “Blair Democrats” of the Progressive Policy Institute and the centrist Democratic Leadership Council.

Both bodies sought to produce a proper Democratic response to the terrorist attacks of September 2001. Both accepted the new need to focus on terrorism and weapons of mass destruction. The PPI went further in saying that Democrats should also support the democratisation of Muslim countries. Both gleefully attacked Mr Bush's “imperial pretensions”, and insisted they would use diplomacy and multilateral institutions more than Mr Bush has done. But they also tried to distance themselves from the pacifist wing of the party (which has embraced Mr Dean) by saying that Democrats must be willing to use force if need be.

Bits and pieces of this agenda have been floating around for some time; but it still represents a change in the political climate. For two years, Democrats have nervously changed the subject whenever questions of war and peace came up. They thought they could not beat Republicans on this front. But the increase in public scepticism makes it no longer un-American to admit that Iraq is not going well.

The question, though, is how far foreign policy can be a vote-winner for the Democrats. The attempts to draft a coherent body of ideas are notably longer on generalities than specifics. They say little, for example, about North Korea or Iran. The party is still split on whether America should put more soldiers and dollars into Iraq, or fewer. Their new statements have not undone the knots into which the Democrats have tied themselves on Iraq. Consider the positions of the party's leading contenders for the presidency next year. Most of them have voted for the war but against the cost of reconstruction. Their squabbling continues: Mr Dean says that trouble in Iraq is undermining his rivals.

More important, what Democrats have said in the past week or so may not be enough to change most Americans' damaging view that the party is soft on national security. The new Pew poll finds evidence that foreign policy in general, not just the Iraq war, has become an issue that separates the parties.

In the summer, Democrats split roughly 50-50 on whether it was right to go to war in Iraq (more than eight out of ten Republicans thought war was justified). Now only 35% of Democrats think war was right. Pew's researchers also find Democrats more hostile to the use of force in general. In 2002, 55% of Democrats agreed with the statement that “the best way to ensure peace is through military strength.” The figure is now 44%. Among Republicans, it is 69%.

This, as well as the rebounding economy, may explain why Mr Bush's problems in Iraq do not seem to be hurting him all that much. His overall approval rating—56% in the *Washington Post* poll—is respectable at this stage in the political cycle. This week, Republicans won the governors' races in Mississippi and Kentucky; the Democrats still seem unable to stem their losses in the South (see article).

Worse may be to come for them. This week, the last Democratic icon in Florida, Senator Bob Graham, said he would not run for re-election next year. That makes four incumbent Democratic senators who will be retiring in states Mr Bush won in 2000—giving Republicans a chance to pick up more seats. One of the retiring Democratic senators, Zell Miller of Georgia, has endorsed Mr Bush in the presidential race, and also attacked Mr Dean for talking about trying to win over southerners “with Confederate flags on their pick-ups”.

It is fair to say that the Iraq problem has injected a new uncertainty into politics at home. It has produced a curious (and possibly temporary) role reversal, with Democrats talking about security, Republicans about the economy. But at the moment the reversal has not been enough to challenge Mr Bush's dominance. And the Democrats have still not found a clear strategy to turn the president's Iraqi travails into victory next November.

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This week's elections

Trouble down south

Nov 6th 2003 | ATLANTA AND CHICAGO
From The Economist print edition

More bad news for the Democrats

AND thus returns a perennial puzzle in American politics: what national lessons can be drawn from the Republicans' success in local races? Last year, when the Republicans took back the Senate, won a majority of the seats in state legislatures and seized several governorships, conservatives said the evenly-balanced "50:50 nation" had tipped in their favour. Nonsense, replied Democrats: it was all down to temporary aberrations (such as people rallying around the president's party after September 11th) and local peculiarities (such as a row about the Confederate flag that doomed Georgia's Democratic governor, Roy Barnes).

Last month, when Arnold Schwarzenegger picked up the governorship of California, even Republicans seemed prepared to concede that this was primarily a local affair. On November 4th, their party won two more governorships in spectacular style. In Mississippi, Haley Barbour beat the Democrat incumbent, Ronnie Musgrove, by eight percentage points. In Kentucky, Ernie Fletcher, a Republican congressman, walloped Ben Chandler, the Democratic attorney-general and grandson of a former governor, by ten points.

AP

Fletcher and campaign helper

The Republicans should hold on to a third southern governorship next week in Louisiana, where Bobby Jindal, a former health policy official in the Bush administration, is neck-and-neck in the polls against the Democratic lieutenant governor, Kathleen Babineaux Blanco. If Mr Jindal wins, the GOP would hold 29 of the 50 governorships, including those of the four biggest states (California, Florida, New York and Texas). At the very least, the Democrats have some more explaining to do.

Much of that explaining concerns their continuing lack of success in the South. The Republicans have had a big advantage in the region in presidential elections for a quarter-century: Mr Bush swept the South in the 2000 presidential election. Now the GOP is beginning to mop up Democrats at the local level as well. This week's successes follow on from last year, when the Republicans captured the governorships of Georgia, South Carolina and Alabama, and a prominent Senate seat in Georgia. They also have the bulk of southern congressional seats. For instance, both of Kentucky's senators are Republicans, as are five of its six congressmen.

To make matters worse for the Democrats, Mr Bush, despite his problems with Iraq and the economy, still seems to be helping his party. Early in the Kentucky race, Mr Chandler made criticism of Mr Bush's economic policies a cornerstone of his campaign. When good news about the economy appeared just days before the election, the Democrat was left scrambling. Mr Bush's visit to both ends of the state last weekend put the final nail in Mr Chandler's coffin. In Mississippi, which Mr Bush also visited twice, Democratic attempts to imply that Mr Barbour was too close to the evil Bush administration also backfired; indeed Mr Barbour's clout with the White House was one reason why he won (see article).

Only in Louisiana has the president so far been kept under wraps. But that does not seem to be anything to do with his personal standing. Mr Jindal's people reportedly decided that Mr Bush's intervention in last year's Senate race, where the Democrat, Mary Landrieu, narrowly survived, was seen by the proud locals as Washington pushing its nose into local matters.

By contrast, the message to the Democratic leaders from their southern troops trying to hang on to their

seats was a explicit “stay out”. In Mississippi, Mr Musgrove conspicuously refrained from inviting national Democrats, such as the presidential candidates, to drop in.

This hardly augurs well for the Democrats in next year's presidential election. All the same, they can find some solace in the idea that local issues probably still mattered more than national ones in both races this week. In Mississippi, Governor Musgrove (just like Governor Barnes in Georgia last year) had flag trouble. He too had been involved in an attempt to take a Confederate symbol off the state flag—and it cost him support.

In Kentucky, where the string of Democratic governors stretched back over three decades, the party was in trouble long before the president set foot in the Bluegrass State. Their biggest problem was the cloud hanging over the current governor, Paul Patton. Mr Patton's reputation was clobbered by the revelation that he had had an extra-marital affair and also by accusations of cronyism: he pardoned several staff members who were indicted for alleged irregularities in the 1995 statewide election (when he won his first term).

“All the Kentucky Democrats are tainted this year, they've been painted with that Patton brush,” says Tom Appleton, a politics professor at Eastern Kentucky University. Mr Chandler pointed to the fact that, as attorney-general, he had prosecuted members of the Patton administration. But voters appeared to believe Mr Fletcher, a former fighter pilot, was more likely to bring change to Frankfort, the state's capital. One measure of Mr Chandler's plight: in a state where basketball is close to religion, even the endorsement of the University of Louisville basketball coach wasn't enough to save him. It was that sort of night for his party.

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Open primaries

Party on

Nov 6th 2003 | LOS ANGELES AND NEW YORK
From The Economist print edition

A threat to the established order dies in New York but pops up again in California

Reuters

Open champion

ARE party primaries an obstacle to good government? Michael Bloomberg, New York's mayor, put $2m of his own money behind a ballot initiative to replace the city's current system of “closed” party primaries, restricted to members of each party, with a single “open” primary, where everybody could vote and the first two people would go to a run-off. New Yorkers rejected it this week by a two-to-one margin, but the idea is gathering support elsewhere as a possible cure for political ailments ranging from voter apathy to partisanship.

It is not hard to see why open primaries might appeal to Mr Bloomberg, a media mogul who became a moderate Republican just before he ran for office. New York is close to a one-party city, where the Democratic primary, which is closely patrolled by party officials and leftish interest groups, normally decides the eventual winner. Mr Bloomberg said an open primary would allow more outsiders into the process and would also enfranchise independent voters, the fastest-growing part of the electorate. At the moment, many don't bother to vote, as the result in the general election is a foregone conclusion.

Mr Bloomberg's idea was fought hardest by the barons who run the current primary system, particularly the trade unions. But he also faced opposition from those who think that political parties should be allowed to govern their own affairs.

Open primaries are used in elections in other cities and even at the state level in Louisiana. Now, in California, Richard Riordan, another moderate Republican, is promoting open primaries as a way to save the state from extremism. Closed primaries, he says, force candidates to appeal to a rabid ideological base. Despite being the most popular gubernatorial candidate last year, Mr Riordan failed to get the Republican nomination because he was too moderate. Arnold Schwarzenegger, who swept to victory in this year's weird but open recall election, might well not have survived a Republican primary either.

An initiative creating open primaries may get on to next year's ballot. A similar one passed seven years ago, but was struck down by the Supreme Court because it infringed the First Amendment's guarantee of free association. The new proposal will supposedly be nuanced enough to evade this problem.

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“The Reagans”

Oh, sorry, no

Nov 6th 2003 | WASHINGTON, DC
From The Economist print edition

Censorship rearing its ugly head, or just an embarrassed retreat?

EVEN now, Ronald Reagan can still stare them down. On November 4th CBS pulled the plug on a four-hour mini-series, “The Reagans”, that portrayed Mr Reagan as a befuddled dupe and his wife as a controlling bitch. The network claimed its decision was “based solely on our reaction to seeing the final film”. But it was clearly influenced by a storm of protest that erupted on conservative talk-shows and websites after the leaking of the script. The critics not only threatened to boycott CBS, but also put pressure on some of its biggest advertisers. Ed Gillespie, the chairman of the Republican National Committee, started a website, isupportreagan.org.

There is no doubt the conservatives had cause to be angry. All docudramas take liberties with the truth; but here CBS seems to have stretched liberty to licence. The series presents Mr Reagan as being callous towards AIDS victims (“They that live in sin shall die in sin”). It implies that he suffered from Alzheimer's during his second term, and could not even recognise his national security adviser. It claims that he supplied names to the Hollywood black-list of communists, an assertion that Lou Cannon, his best biographer, says has no basis in fact. Lest you miss the point, it has Mr Reagan call himself “the Antichrist”.

None of this is surprising, given the people involved in the project. The part of Mr Reagan was played by James Brolin, the husband of Barbra Streisand, a veteran Democrat; the part of Nancy Reagan by Judy Davis, an Australian who has said that she deplores the “ugly spectre of patriotism” she has seen in America since September 11th.

There is no doubt that Mr Reagan, who was one of CBS's biggest draws in the 1950s and is now too ill to defend himself, deserves better. But does this justify dropping the series? People who defend the decision point out that networks often drop projects—before or after they have gone on the air—if they don't get the right audience reaction. Cable channels can afford to take risks because they have revenue from subscribers as well as from advertising: network channels are more nervous. Also, “The Reagans” is being downgraded, not killed. The mini-series will appear some time next year on Showtime, a cable network owned by CBS's parent, Viacom.

Yet none of this is completely convincing. For one thing, it is extremely unusual for a series to be pulled at such a late stage, particularly a high-profile series that could affect a network's position in November's “sweeps”, which determine the price of advertising. For another, only 12.3m homes receive Showtime, compared with 106.6m that get CBS.

The brief extracts of “The Reagans” shown on television suggest it is nothing more than cartoon-like nonsense. But so is much of what television serves up. The willingness of a major television network to give in to protests, it can be argued, will intimidate creative artists while encouraging would-be censors. People who don't like television programmes should switch them off rather than lobbying to take them off the air. That even applies to programmes that say untrue things about decent men hovering on the edge of death.

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Outsourcing the Park Service

Do it for love

Nov 6th 2003 | CAMBRIDGE, MASSACHUSETTS
From The Economist print edition

Government downsizing goes outdoors—and runs into opposition

ON A cloudless afternoon at the Longfellow National Historic Site in Cambridge, Massachusetts, a uniformed ranger discusses the Revolutionary War and 19th-century literature, painting and sculpture. She is standing in the former home of Henry Wadsworth Longfellow, which also served as George Washington's headquarters during the Revolution.

The building has recently been fitted with new fire-protection and cooling systems, but the work has left no trace. That, insist the staff, is because the job was done by a National Park Service preservation carpenter, with the requisite plastering and painting skills, knowledge of architectural history and curatorial practices. Craftsmen like him are not to be found in the yellow pages. As Stephen Spaulding, the head of architectural preservation for the Park Service's north-east region, puts it, “I'm not sure how you'd spec that.”

Mr Spaulding is referring, indirectly, to the Bush administration's new plans for outsourcing government jobs. This spring, the White House Office of Management and Budget ordered all federal agencies to review by the end of fiscal 2003 the 15% of the jobs they deem “commercial”, or suitable to be done by private contractors. (The other, “inherently governmental”, jobs would stay in the public sector.)

That government-wide 15% requirement was fairly soon dropped, but agencies and departments are still meant to be doing studies of outsourcing and working out their own targets. Altogether, some 850,000 people hold “commercial” government jobs. Supporters of the policy say it means greater competition, efficiency and savings. Opponents argue that the reviews are costly and morale-sapping; they also say that privatisation threatens agencies' institutional memory. Some also see it as an anti-union ploy.

These arguments are now taking place in many departments. There is talk, for instance, of a filibuster in the Senate to stop an appropriations bill that would allow air-traffic-control work to be contracted out. But the cash-strapped National Park Service is a natural candidate for the idea.

The agency, which oversees 80m acres of government land, has a full-time staff of 20,000, split roughly equally between “commercial” jobs and “inherently governmental” ones. And it faces a massive maintenance backlog. This summer, it was taken to task by the Interior Department's inspector-general for failing to tighten security at “iconic” sites after September 11th—and was told to consider hiring private security guards to take up the slack.

More broadly, the department has also given the Park Service until the end of fiscal 2004 to review 1,700 “commercial” jobs to see if outsiders could do them. The Park Service already outsources about $1 billion of work a year, mainly maintenance, construction, data-processing and professional services. Around 28,000 contractors and concessionaires work in the parks system, as do 100,000 or so volunteers. Some 850 vacant posts have been turned into private-sector contract jobs, a move one trade union is challenging.

At Longfellow, feelings are mixed. Park Service employees grew used to working alongside private contractors as the house was refurbished, and can see the benefits. But they also point to intangible costs. The professionals involved in the current reviews—including historians, architects, cultural anthropologists and archaeologists—generally earn less in the Park Service than their counterparts in the private sector. They are also willing, as the private sector rarely is, to work for love. Many a Park Service scholar has wielded a lavatory brush in the service of culture. “We are here to protect the national patrimony,” says the South-East Archaeological Centre's manager, “and to turn that into something that's for-profit-based would be the death-knell for the Park Service.”

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Lexington

The King of K Street

Nov 6th 2003
From The Economist print edition

Meet Haley Barbour, the new governor of Mississippi and Republican super-lobbyist

HALEY BARBOUR has not always been welcomed with open arms in his native Mississippi. In 1982, he failed to unseat John Stennis from the Senate, even though the Democrat was 81 years old and given to meaningless rambling. “I'd vote for a yellow dog that had been lying dead in the hot August sun for two weeks before I'd vote for Haley Barbour,” growled one voter. Mississippians are more welcoming today. On Tuesday Mr Barbour was cheerfully voted into the state's governorship.

His victory, like the Republicans' success in Kentucky, is further proof of the death of “yellow dog” Democrats in the South. But it is also evidence of something that may rival Dixie in its effect on the future of Republicanism: the steadily tightening bond between the Grand Old Party and the lobbying industry.

Mr Barbour became a power broker in Mississippi's Republican Party when he was still in his early 20s—in the turbulent decade following the 1964 Civil Rights Act, when the Democrats' century-long hold over his state began to crumble. He seized the opportunity to become a force in the national party, eventually joining the Reagan White House, becoming the chairman of the Republican National Committee and helping Newt Gingrich plan the Republican takeover of Congress in 1994.

But Mr Barbour combined his love of politics with another love: lobbying. Mr Barbour is a power broker straight out of the novels of his fellow Mississippian, John Grisham. Barbour Griffith & Rogers is perhaps the most powerful lobbying firm in the country. The private balcony of his office looks out over both the White House and the Capitol. He is also the part-owner of one of Washington's most popular watering holes, the Caucus Room.

He ran for Mississippi's governorship as a regular guy who just happens to have a “little lobbyin' firm up in Washington, DC”. He slapped backs, ate catfish and poured on the southern charm. But he also mobilised an impressive array of friends. George Bush (whom Mr Barbour used to call “junior”) visited the state twice, once just before the election. Other visitors included Dick Cheney (twice), two cabinet secretaries, Jeb Bush and Elizabeth Dole. Mississippians were left in no doubt that a vote for Mr Barbour was a vote for clout in the capital.

The new governor has accumulated his extraordinary influence in Washington by bringing about a

revolution on K Street. Until the mid-1990s, this haunt of the lobbyists was either neutral or narrowly Democratic turf. Any bias reflected the fact that the Democrats had ruled Capitol Hill for decades. But the lobby shops tried hard to employ Republicans as well as Democrats and to avoid being too ideological. Democratic lobbyists were particularly concerned not to offend either the businesses that paid their bills or the trade unions that provided their party with votes. In contrast, Mr Barbour is resolutely partisan and ideological. His firm insists on having a solidly Republican staff, right down to the telephonists. His only concession to bipartisanship was founding the Caucus Room in association with a powerful Democrat, Tommy Boggs.

Two things have turned Mr Barbour from an anomaly on K Street into a sign of the future. The first is the Republican Party's grip on Congress, which began with the victory he helped to engineer in 1994 and now seems stronger than ever. The second is the Republicans' “K-Street project”. Leading conservatives such as Tom DeLay, the Republican House majority leader, and Grover Norquist, chairman of Americans for Tax Reform, have told lobbyists in no uncertain terms that they should hire more Republicans or risk being snubbed on the Hill.

The lobbying industry is now thoroughly intertwined with the Republican Party. The Republican National Committee's chairman, Ed Gillespie, is a leading lobbyist. (Mr Gillespie showed up in Mississippi this summer promising that the party would “do everything that we're legally allowed to do” to get Mr Barbour elected.) Almost all new appointments on K Street are Republicans. And this intertwining is happening at a time when lobbyists are getting ever more influential. In 1968, there were only 62 of them. Now there are 21,000. And they don't just try to influence legislators; they raise money for them, too.

The K Street connection

In an article in the *Washington Monthly* this summer, Nicholas Confessore argued that the Republican Party is in the process of absorbing K Street into its political machine in much the same way as Franklin Roosevelt and his heirs once used government to the Democrats' advantage. In its glory days, the Democratic Party used its grip on the machinery of government to dole out largesse to loyal constituencies (the poor, the old and, eventually, racial minorities) and also to provide jobs for its own foot soldiers. Now the Republican Party is using its sway over both K Street and the wider business community to build a private-sector equivalent of Roosevelt's machine. It hands out government contracts to businesses that favour its causes. It provides its most loyal foot soldiers, from congressional aides to congressmen, with a pot of gold on K Street when they retire.

There is only one problem with this: the Republican Party is supposed to be the party of light government and open competition. Mr Barbour's brood can flourish only in a world of government meddling and backroom deals. Introduce open competition and they have no influence to peddle. As for reducing government spending, this would mean that the Republicans would have fewer goodies to dole out (something that helps explain why spending is so out of control at the moment).

Woodrow Wilson once complained that “the government, which was designed for the people, has got into the hands of the bosses and their employers, the special interests. An invisible empire has been set up above the forms of democracy.” Mr Barbour shows that the invisible empire is on the rise again.

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Guatemala's election

Return of a smiling dictator

Nov 6th 2003 | RABINAL, GUATEMALA
From The Economist print edition

EPA

General Efraín Ríos Montt trails in the polls, but his tactics and his past arouse many fears for democracy

Get article background

ONE day last week in Rabinal, a nondescript town in Guatemala's central highlands, groups of Indian schoolgirls in neat, brightly coloured dresses were visiting the local museum. They were interested in only one of its small rooms. Inside were hundreds of photos of local people killed in a series of massacres between 1981 and 1983. The victims were the girls' grandparents or other relatives. Next to the photos were pinned extracts from a church report describing the Rio Negro massacres, named after a river just outside the town. In one, 70 women and 107 children were killed. In all, at least 4,411 were killed, or 20% of the population. Almost all of the victims were indigenous Mayan Indians. For once, the term “genocide” is not an exaggeration.

Other Latin American countries have experienced similar violence, though on a smaller scale. But most have managed, in some measure, to come to terms with their history. Not Guatemala. A 36-year civil war, between left-wing guerrillas and the armed forces, in which 200,000 people were killed, nearly all by the army and its allies, ended in 1996. But in Rabinal, the killings and the circumstances that gave rise to them remain live issues. They haunt a general election on November 9th in which many fear that Guatemala's halting progress towards democracy and the rule of law hangs in the balance.

Rabinal is part of the heartland of the Guatemalan Republican Front (FRG), a party founded by General Efraín Ríos Montt, who was Guatemala's dictator in 1982-83, and who is now standing for president. He trails in the polls, but his candidacy, his record and his party's threatening tactics have set the agenda for the election.

Rabinal's Indian activists, like many Guatemalans, hold General Ríos Montt responsible for the genocide in the town. To his detractors, the support that he enjoys in places like Rabinal is not a mystery. The general, they argue, has merely tweaked his wartime strategy of “bullets and beans” with which he subjugated such places into a peacetime version involving sticks and carrots.

For bullets and sticks, the FRG can still rely on the former “Civilian Patrols”, local men who either volunteered or were dragooned by the army to carry out many of the killings. About 520,000 of them (in a country of 11.5m) have just received the first tranche of a payment due to total some $645 each from the outgoing government, in which the FRG has the dominant voice. Officially, this is “compensation” for war service. To others, it looks like a cynical move to buy electoral support. Encouraged by the hope of compensation, the patrollers remain mobilised. They have been a menacing presence in the campaign.

As for beans and carrots, the FRG has sold off at knockdown prices thousands of sacks of fertiliser, as well as machetes and housing materials—valuable bribes in a poor country. But to his supporters, the general's main appeal is as the strongman of Guatemala, who brought order to the highlands out of the chaos of war. He “extinguished criminality”, says an Indian woman in Solalá, in central Guatemala. Rather than *General Genocida*, they call him *General Sí Puede*, the “can-do general”. He campaigns on a populist platform. The FRG's main target is the “financial impunity of the country's privileged, moneyed elite,” says Eduardo Weymann the finance minister and a party leader.

His opponents worry that General Ríos Montt, who is now aged 78, would take Guatemala back 20 years. Could he win? Opinion polls put the general third, with only 14%, behind Óscar Berger, of the business-backed National Advancement Party. Mr Berger has around 35%, but is losing ground to Álvaro Colom, of a centre-left coalition. But the general's support is in rural areas, and may not be fully reflected in the polls. With no candidate set to win an overall majority, General Ríos Montt could yet squeeze through into a run-off ballot, due on December 28th.

Almost as important as Sunday's result will be whether or not the election is peaceful. The FRG has a reputation for intimidation and violence. In July, its supporters staged two days of riots in the capital, after a court tried to ban the general's candidacy. The vote will be watched by thousands of observers, some foreign. The campaign has already seen some 25 people killed. If the general loses, especially by a small margin, his supporters may turn ugly. Many Guatemalans will be worried as much about their personal safety as their country's politics this weekend.

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Brazil's economy

A battle won, another begun

Nov 6th 2003 | SÃO PAULO
From The Economist print edition

Macro optimism, micro scepticism

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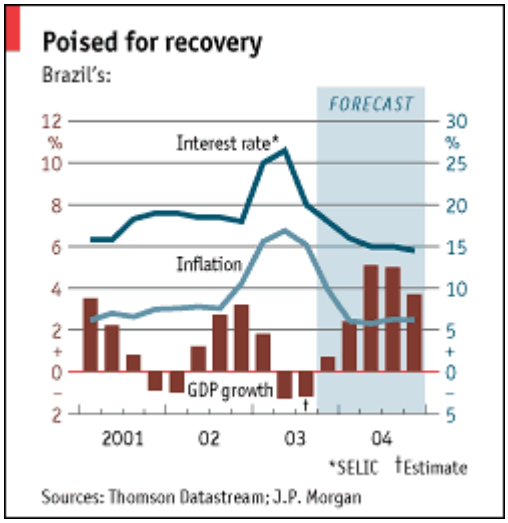

THE government of Luiz Inácio Lula da Silva, which spent its first ten months in office apologising for tight budgets and high interest rates, is now, cautiously, celebrating. “We have won [the] battle” against inflation, declared the finance minister, Antônio Palocci recently. Country risk, as measured by the interest-rate premium of Brazilian bonds over American ones, has dropped from 24 percentage points to below six. Budgets still pinch but domestic interest rates are falling. Most important, the economy is picking up, after a recession in the middle of 2003. Industrial production grew by 4.3% in September, compared with August. J.P. Morgan, an American bank, predicts that the economy will grow by 3.6% next year.

On November 5th, the government confirmed that it is close to reaching agreement with the IMF on a new loan programme, which should allow a bit more public spending at little cost to Brazil's creditworthiness. The new loan would be for $14 billion (in addition Brazil will delay repayment of $5.5 billion to the Fund). The government will stick to its current target for the primary fiscal surplus (ie, before interest payments) of 4.25% of GDP. Since it saved more than that this year, the new deal may allow some extra spending in 2004 on public services, such as sewage.

Beneath the good cheer, though, are two worries: that growth will not be strong enough to produce many jobs and that firms will not invest enough to sustain it. Unemployment, now 13%, is not expected to fall much in 2004. Some longer-term investors temper “macro-optimism” with “micro-pessimism”.

The government lacks the money needed to ease the bottlenecks in infrastructure that bedevil the economy. But it has not done enough to encourage private enterprise to fill the gap. Overall, investment is running at a scant 17% of GDP.

President Lula rattled investors back in February when he complained that having independent agencies to regulate power, telecoms and other utilities amounted to an “outsourcing of the state”. Then the telecoms minister encouraged consumers to challenge in court a tariff ruling by the regulator. They won at least a temporary cut in the rate increase, costing the industry $100m a month, says Carlos de Paiva Lopes, head of Abrafix, the main telecoms lobby. Recently, the government has changed tack. In October, it proposed a regulatory reform that dropped the contentious idea of making regulators' tenure coincide with the president's. It also proposed a framework for “public-private partnerships” designed to lure private investment into such public works as roads and electricity.

Yet neither proposal offers investors the security they want. Regulators would be answerable to the government under “management contracts”, exposing them to political whims. The guarantees offered under the proposed partnerships are worth little without robust regulators.

Mr de Paiva Lopes believes that regulatory policies are now “going in the right direction.” The government is expected to present a revised reform proposal this month. Investors are also watching closely the government's evolving plans for a new regime to encourage investment in the battle-scarred electricity sector. These will draw less notice than the new IMF agreement. But for Brazil's long-term economic prospects, they matter more.

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Canada's political transition

Chrétien's last gasp

Nov 6th 2003 | OTTAWA
From The Economist print edition

Paul Martin knocks on the prime-ministerial door

Get article background

BY ANY measure, the departure of Jean Chrétien has been painfully drawn-out. Back in August 2002, after almost a decade as prime minister, he announced that he would retire—but not until next February. His successor, Paul Martin, his former finance minister but a personal rival, is due to be anointed at a party convention starting on November 14th. Now, Mr Chrétien seems to have accepted that there is no point in staying around much longer.

He is said to have paid a quiet visit to the governor-general, to ask her to be available to swear in a new cabinet in late November. Aides denied a report that he would take on a role on Africa for the UN. But Mr Chrétien himself recently amended his timetable, saying he will leave “between now and February”.

If he does go this month, few Canadians will object. Unofficially, Mr Martin has been the leader in waiting for months. Fewer Liberal MPs have shown up for some of Mr Chrétien's recent caucus meetings than have attended casual policy chats with Mr Martin. Spending plans announced by ministers were thrown into question when aides to Mr Martin said that they would be “reviewed” (read cancelled) as soon as their man took over.

If Mr Chrétien does go early, much proposed legislation may disappear with him. More than a dozen bills passed by the House of Commons are now before the Senate. They include a much-debated law to ban human cloning but allow some stem-cell research. Other parts of Mr Chrétien's “legacy agenda”, including a bill to decriminalise marijuana, have yet to make it out of the Commons. Mr Martin, who is expected to call an election next spring, may not mind too much if that bill goes up in smoke.

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Crime in Argentina

Policing the police

Nov 6th 2003 | BUENOS AIRES
From The Economist print edition

A test for the new president

Get article background

NÉSTOR KIRCHNER'S five months as Argentina's president have been notable mainly for his success at making himself popular. So a pot-banging protest last week, of the kind that accompanied the ejection of two predecessors in 2001, no doubt came as a shock. Its target: government inaction on crime. Buenos Aires is still one of Latin America's safest capitals. But crime is rising, partly as a result of a financial collapse in 2001 from which Argentina is only starting to recover.

Public fears centre on kidnaps, with almost 200 reported so far this year. Some of the victims were relatives of celebrities. But most are “express kidnaps”, where the victims are held for a few hours and freed for relatively small sums. The catalyst for the protest was a particularly gruesome case, in which a father was sent the severed finger of his kidnapped student son, together with a video of it being cut off.

The student was released, otherwise unhurt, this week. But the protest spooked the government. Mr Kirchner responded that most of the kidnaps involve police officers, often those of the Buenos Aires provincial force (known as *La Bonaerense*)—the responsibility of the province's governor, Felipe Solá. That is shocking, but hardly news. Corruption in *La Bonaerense* was the subject of a recent hit film. Last month, several of the force's chiefs were suspended by Mr Solá, accused of stuffing millions of dollars in offshore accounts.

Mr Kirchner has already moved against the federal police force, which operates in the capital, taking tighter control of its finances, leadership and crime-prevention strategy. His remarks this week were an invitation to Mr Solá to follow suit, or risk the federal government stepping in, says Marcelo Sain, a criminologist.

This may put Mr Kirchner on a collision course with his principal backer, Eduardo Duhalde, a former governor of the province. Some of the local leaders of Mr Duhalde's political machine in the province are suspected of profiting by protecting police corruption. León Arslanian, a former security minister in the province, says that the *Bonaerense* is “not difficult to reform” because it is used to obeying orders. “The one thing you need is strong political will.” That is what Argentines now ask of Mr Kirchner.

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Inequality in Latin America

A stubborn curse

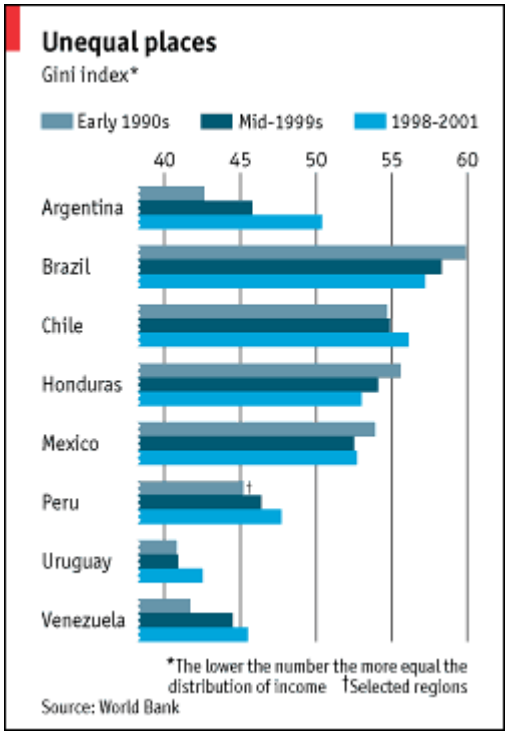
Nov 6th 2003
From The Economist print edition

Contrary to myth, Latin America is not becoming more unequal. Nor is it becoming much less so

INEQUALITY is as Latin American as good dance music and magical-realist fiction. Like those other regional products, it thrives. The richest tenth among Latin Americans earn 48% of total income, while the poorest tenth earn just 1.6%, according to the World Bank. The equivalent figures for rich countries are 29.1% and 2.5%. Why is Latin America so unequal? Have the "neo-liberal" policies implemented in many countries in the region over the past 15 years or so made matters worse, as critics often assert? What could be done to reduce inequality?

A hefty study* by a team from the World Bank, recently released in draft form, attempts to answer these questions. It finds that inequality is deep-rooted, and has varied little over recent decades, despite big changes in economic policies. Data derived from household surveys show that income inequality across Latin America as a whole declined slightly in the 1970s, increased during the 1980s (the debt-ridden "lost decade") and showed no clear pattern in the liberalising 1990s.

Take, for example, the Gini coefficient, a statistical measure of inequality in which zero expresses complete equality. The average Gini coefficient for Latin American countries increased from 50.5 to 51.4 over the 1990s (ie, inequality rose slightly). But weight the results by population, and that result is reversed (from 51.9 to 51.5). That is because Brazil became less unequal, and Mexico slightly so (see chart). But variations between countries narrowed: inequality worsened, for instance, in previously more egalitarian Argentina.



Historians, political scientists and left-wingers have long highlighted inequality as an important obstacle to development in Latin America. But this is newer territory for the World Bank. It used to argue that achieving prosperity was simply a matter of getting economic policies right. More recently it has recognised that politics and institutions matter.

How does inequality fit into this new view? It is said to affect development in three main ways. First, income inequality goes hand in hand with unequal access to good things such as education, health and political power—inequalities that violate basic principles of democracy. Second, in Latin America, inequality involves widespread poverty: two out of five Latin Americans are poor, even though most of them live in "middle-income" countries. Third, there is some (contested) evidence that very high inequality undermines growth, by concentrating saving and investment in too few hands.

Latin America is much more unequal than other regions. The reason is history. European colonisation set a pattern of exploitation of indigenous Indians. Its legacy, and that of slavery, live on. This helps to explain the ethnic character of some of the region's inequality. The Bank finds that in Guatemala one in five "white" men have a car, compared with only one in 20 men of indigenous blood. In Bolivia, 84% of "white" women have access to electricity, compared with 64% of Indian women.

Neither development nor democracy has served to reduce inequality much. Crucially, access to land and

to education was very unequal in most Latin American countries in the late 19th century, when the economic returns to these resources were very high. Subsequently, authoritarian politics tended to lock in inequalities.

So one might expect democracy to make a difference. In some places it does, but only slowly. In some countries, taxes and government spending remain “significantly below what is needed to support rapid social and economic development”. In the 1990s, social spending increased sharply in the region. But much of this still favours the better off: examples include pensions, universities and health schemes linked to social-security systems. Overall, though, social spending does promote equality. In Brazil, for instance, only 70% of children aged 6-12 in the poorest fifth of the population went to school in 1990. By 2001, that figure had risen to 93% (the equivalent figures for children from the richest fifth of homes were 96% and 99%).

Today, inequality in Latin America is mainly due to the interlocking effect of four things, says the Bank: access to education is unequal; the earnings of educated people are disproportionately high; the poor have more children with whom they must share their income; and targeting of public spending is ineffective.

Changing this requires improvements in the quantity and especially the quality of education, and expanded social-assistance schemes aimed accurately at the poor. Such policies may first require political reforms so that the voice of the poor carries equal weight to that of the rich, says the Bank. What it fails to say is how this might be done—while avoiding the characteristically Latin American trap of growth-sapping populism.

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* Inequality in Latin America and the Caribbean: Breaking with History?

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Afghanistan's political transition

Here's your new constitution

Nov 6th 2003 | KABUL AND PANJSHIR
From The Economist print edition

AP

The face of the new Afghanistan starts to take shape

Get article background

DRAWING up a modern constitution for post-Taliban Afghanistan was never going to be easy. Nine Afghans out of ten cannot read. The average mullah has little time for western democratic ideals. Women are still, for the most part, less to be seen or heard than to be readily beaten, according to a recent Amnesty International report. Superstition is rife: most Afghans still think that human beings are outnumbered by politically active djinns created from the smokeless fire spoken of in the Koran.

All the same, on November 3rd a draft constitution on which a *loya jirga*, or grand assembly, is to vote in December was handed to the king in Kabul. It makes clear the broad sweep of how the future Afghanistan will look: firmly but not stridently religious; and centralised.

The new-forged nation will be called the Islamic Republic of Afghanistan. Haphazard consultations held throughout the country during the summer confirmed what everyone already suspected: that Afghans want a democracy that reinforces Islam and peace. The views of Mohammed Khan, a cleric in the Parandei district of the Panjshir valley, are fairly typical. He has contempt for those inciting young Muslims to violence. He says that the new constitution should be based squarely on the Koran, with education for girls and work opportunities for women, provided they cover themselves. He would like to see the adoption of *sharia*—Islamic law—but with professional investigation of cases.

He won't get that. The draft constitution calls merely for civil law in keeping with Islamic principles. He will also have to put up with women having the vote. Still, the final result—no stonings or amputation of hands but no booze either—should be just about acceptable to the religious proletariat of village clerics like him who dictate and reflect the views of most Afghans.

It would be tempting for foreign donor governments to push Afghans further towards modernity than they are ready to go. In the past, however, bold reformists have fared badly in Afghanistan. The progressive constitution of 1923, which abolished slavery and attempted to replace tribalism with nationalism, was undone by irate clerics from the majority Pushtun group. The 1964 constitution went further but it opened up a political space for Marxists and set the country on the path to 23 years of war. Even the Soviet Union took the hint: by 1987 the KGB was instructing its proxies to declare Islam the

sacred religion of red Afghanistan.

The constitution will also lay out the framework for next year's elections (likely to be pushed back now, from summer to autumn). The monarchy is out for good, though the present king will keep his title of “Father of the Country”. In the monarch's place will be a directly elected president and a bicameral legislature. The constitution differs from its American model in being avowedly centralised. Afghanistan is too weak, the drafters think, to tolerate federalism just yet.

How might all this play out? The finer points of the draft will probably be the subject of wearisome debate by December, as different groups ready themselves for the elections. Politicking has already begun, which is perhaps good news in a country where disputes have for so long been solved by violence. The ex-communists will rebrand themselves on the left. A monarchist party will appear on the right. In the centre will be a loose movement of self-styled “national unity” headed by Hamid Karzai, the incumbent president. The only credible threat to this centrist block might come from the possible creation of a *jihadi* party made up of former anti-Soviet guerrillas with conservative social views, bankrolled by Tajiks and headed by a sellable Pushtun.

The post of president has been tailored for, and by, Mr Karzai. The UN and others overseeing the constitution think his survival essential if the country is to progress. He has declared his intention to run for election. But in order to win he will have to convince fellow Pushtuns that he is not a puppet of America and has enough authority to defend their interests. A new law banning militia commanders from holding political office will help, as will a measure giving the Pushtu language the same status as Dari, the local variant of the Persian used in Kabul and the north.

Both these measures will, by the same token, damage Mr Karzai's relations with the Northern Alliance's warlords, who are mainly Tajiks and Uzbeks. Some Tajiks would like to see their own man, Mohammed Fahim, make a bid for power. He still runs the defence ministry in addition to his private army, and was among a motley bunch that floated the idea of forming a *jihadi* political party while Mr Karzai was recently out of the country. However, the hope of rallying unhappy *jihadis* to a platform of conservative Islam and past glories proved short-lived when Mr Fahim lost his nerve after a quiet chat with America's Central Intelligence Agency.

The more liberal the new constitution, the harder it will be to enforce, especially as the judicial system is in a shambles. But war fatigue, an inclination for moderation after the excesses of the Taliban, and an understanding that no one group can govern the country alone could very well combine to make the constitution popular. An important hurdle has been passed.

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Afghan football

Games and government

Nov 6th 2003 | KABUL
From The Economist print edition

AP

The travails of football in Afghanistan mirror the tribulations of the country

Get article background

SPORT, say anthropologists, is a substitute for war. In few games is the link as explicit as in *buzkashi*, an Afghan version of polo in which horsemen contest possession of the headless carcass of a goat. But if *buzkashi* is emblematic of the tribalism and scarcity that have scarred Afghanistan's history, the state of the country's other popular sport—football—says more about the progress, and problems, of its reconstruction.

Like much else in Afghanistan, football depends on foreign money and expertise. Michael Moriarty, a former British army major, is reviving the Afghan Football Association, aided by a German coach. The job is not just to undo the depredations of the Taliban: the game has been buffeted by political upheavals for decades. Almost the entire national team sought asylum in Germany after the Soviet invasion of 1979.

In a country where even the central government must struggle to extend its authority beyond Kabul, creating a national football league has proved impractical. Travelling to matches in distant cities is difficult and dangerous. Players are often their families' main breadwinners and cannot afford to go. So football, like government, tends to be organised locally, with teams—like the armies of warlords—relying on wealthy patrons.

According to Mr Moriarty, bad roads are not the only difficulty the beautiful game faces in Afghanistan. Many players are malnourished: those being tested for the national team get hot meals as well as coaching. The Taliban's fall did not end the abuse of women, and female football is still seen as an abomination.

For all that, there is cause for optimism. The Taliban banned football, and used the stadium in Kabul for executions. When they later permitted it, games were interrupted for prayers and the only chant permitted in the crowd was "*Allahu akbar*". Footballers were arrested during matches for having beards that were too short or hair too long.

Now they play freely on the country's few pitches and the dusty streets of its cities. Different ethnic

groups mix harmoniously on the pitch, and the game soaks up the national pride that has survived wars and occupation and is one of Afghanistan's great assets. Results in international matches have not been stellar. But the football association is aiming to compete in the 2006 World Cup.

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Japan

A fair fight, at last

Nov 6th 2003 | TOKYO
From The Economist print edition

However the voting goes this Sunday, the election has been a step forward

Get article background

AFP

Choose me, me, me or me

CHANGE the government, change Japan. That simple choice, at long last, will be open to Japanese voters as they head to the polls on November 9th. Many of them will try to take it. The party these ambitious voters will be backing, the Democratic Party of Japan (DPJ), was still an underdog as the campaign moved into its final days. But in its efforts to unseat the ruling Liberal Democratic Party (LDP), the DPJ has already changed Japanese democracy in two ways, both of which bode well for the country's future.

First, the DPJ has done wonders merely by emerging as a legitimate contender. When Junichiro Koizumi became prime minister in April 2001, by winning an internal LDP contest, his best-known slogan was "change the LDP, change Japan". Since the LDP has been the only game in town, the only hope for better government has been for Mr Koizumi to win a battle, which he has fought only intermittently and with mixed results, with his own party. Before he came along, there was little hope at all.

Many Japanese democrats have long wished that a clear two-party system would eventually emerge, offering voters a credible alternative to the LDP coalition. During the cold war, the main alternative was the Japan Socialist Party, which was so anti-business, and so hostile towards the security treaty with America, that it never really had a chance. Things became briefly more interesting in the early 1990s, when the LDP lost power for a bit. But the alternative parties and factions fragmented rather than joining forces; and the LDP has governed ever since.

Now, after merging in September with the next-biggest opposition party, the Liberals, the seven-year-old DPJ has emerged as the clear choice for disgruntled mainstream voters. Japanese politics is suddenly a lot more fun.

Thanks to the DPJ's second change, politics may be growing more open as well. Naoto Kan, the DPJ's leader, enlivened the debate by launching, amid great fanfare, a detailed "manifesto" describing how the DPJ would govern. Mr Kan copied the idea from a handful of maverick governors, who have won over voters in their prefectures with similarly detailed proposals. Just as Mr Kan predicted, the DPJ manifesto, a novelty in Japanese national elections, has helped to focus more debate on specific issues, such as pensions and the devolution of power to local governments, much to the DPJ's benefit.

The quality of the debate should not be overstated. Japan does not have many independent think-tanks that can analyse the claims of rival parties and act as neutral referees. Nor are the Japanese media very adept at doing so. Nevertheless, the LDP has, to an unprecedented extent, been forced to spar with an opponent over substantive issues during the campaign.

Equally important, the DPJ manifesto has helped Mr Kan to highlight the divisions within the LDP. Mr Koizumi was forced to release his own manifesto in response. Many LDP candidates, especially in conservative rural districts, then openly denounced the document's reformist proposals, even as the DPJ criticised it as vague. A rival, unofficial, LDP platform began circulating in response, and anti-Koizumi LDP members quickly snatched up copies so that they could show something to voters in their districts.

The result has been a surprisingly clear choice for voters. Both Mr Koizumi and Mr Kan have run on

reformist, broadly pro-market, agendas. Both parties, however, are divided internally, with some candidates in each party favouring the government's current anti-competitive policies. Mr Koizumi is far more popular than Mr Kan, commanding 48% support even after a recent slide, and is a master at using the mass media to strengthen his appeal. His message is that he is gradually getting control of his party, and is therefore the best bet for voters who want reform.

Mr Kan, in contrast, has tried to convince voters that Mr Koizumi cannot really get control of the LDP, and that the vagueness of his reform proposals, after 30 months in office, is proof of that. Over the past few months, Mr Koizumi has, in fact, done a much better job than previously of taking control of his party. For this, a great deal of credit must go to Mr Kan and his fellow Democrats. By presenting the LDP with some real competition, he has spurred Mr Koizumi to act and weakened the resistance within the LDP. However this weekend's voting goes, Japan is starting to look like a normal democracy.

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Sri Lanka

Kumaratunga pulls the emergency cord

Nov 6th 2003 | COLOMBO
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Feuding Sinhalese politicians jeopardise peace with the Tamils

Get article background

FOR three days, it looked as if Sri Lanka's peace process, stalled for six months, was limping back on track. The Liberation Tigers of Tamil Eelam had at last made public their proposals for an interim settlement of their 20-year struggle for a homeland for Tamils, independent of the Sinhalese majority. But then, on November 4th, Sri Lanka's president, Chandrika Kumaratunga, mounted a constitutional coup against the government of the prime minister, Ranil Wickremesinghe. The apparent pretext was the government's handling of peace talks. So, although she insisted there would be no return to a war that has taken 65,000 lives, she rattled nerves at home and abroad.

Since her party lost a general election two years ago, the president has doubled as leader of the opposition. Her coup took the form of a suspension of parliament for two weeks, and the sacking of three government ministers—of defence, interior and information—and assumption of their responsibilities. Soldiers were sent to the government's printing press and broadcasting stations.

On November 5th, she declared a state of emergency. Her spokesman maintains this was merely a legal requirement dictated by the deployment of the army. The stockmarket fell 13% in a day. Her critics, however, assumed it was a pre-emptive strike against possible pro-government demonstrations. The state of emergency has to be confirmed by parliament within 14 days. The president may try to win this vote by luring over some of Mr Wickremesinghe's supporters. Failing that, she would either have to ignore the constitution or dissolve parliament and call elections. Her opponents are short of the two-thirds majority they need to impeach her.

The proposals from the Tigers that supposedly triggered all this were indeed extreme. They demanded an interim authority with a guaranteed Tiger majority, and would make the north and east of the island an independent country in all but name. It would run its own defence, police and tax authorities. It would control the region's share of the $1 billion a year in foreign aid promised if peace takes hold. It would control two-thirds of Sri Lanka's coastline, and the adjacent maritime resources. And it would appoint the commission that would be required to hold an election to establish a permanent government after five years as well.

Mrs Kumaratunga has long complained that the government was giving too much away in the peace talks. Many fear that the Tigers, with their appalling history of terrorist atrocities, have neither dropped

their dream of full independence, nor mended their brutal authoritarian ways. Despite a 20-month ceasefire, they have continued to recruit more soldiers—including children—and to assassinate “informers” and political opponents.

But the Tigers' proposals were a starting-point for negotiations, not their conclusion, and the president insists talks are still possible. Her coup seems to stem from a passionate commitment less to Sri Lanka's sovereign integrity than to her own political power.

The proximate cause may have been an attempt in parliament to impeach the chief justice, seen as an important ally of the president's. She acted while the prime minister was in America, for talks with President Bush. November 12th, when the government was to table its budget, provided another deadline. The budget was expected to include vote-catching measures aimed at provincial elections next year. In the next presidential poll, in 2005, Mrs Kumaratunga will be constitutionally barred from running. Mr Wickremesinghe faces no such obstacle. If the ceasefire holds, and the aid trickle turns into a torrent, his popularity will rise.

Already, the prospect of peace has helped the economy pick up, and the government coalition was expected to win a snap election. It will find it harder against an opponent who controls the army, police and state-owned press, as well as holding the government's purse-strings. The Tigers, unsure of Mrs Kumaratunga's intentions, must be hoping it succeeds.

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China

Cosy neighbours

Nov 6th 2003 | KUNMING
From The Economist print edition

Reviving ancient trade routes

“IT IS easier to leave the country and reach the sea than it is to leave the province and reach the capital.” So goes one bit of conventional wisdom among the people of China's south-western Yunnan Province. With a quick glance at the map, the mountains, and the 4,000km (2,500-mile) worth of borders that Yunnan shares with Myanmar, Laos and Vietnam, it is easy to see why this is so. As it did so many times in the past, Yunnan is once again looking outward and southward for economic opportunities, but this time it has the blessings and support of the mandarins in Beijing.

Over the past 20-odd centuries, Yunnan has often been more closely aligned and better economically integrated with its neighbours to the south than with the Chinese to the north. Many of its people, even now, belong to the indigenous non-Chinese ethnic minorities that straddle the borders. Historians reckon that as early as the third century BC, Yunnan was part of a South-East Asian trade network that exchanged all manner of goods and used a common shell-based currency to settle the bills. Since then, whenever a Chinese emperor (or, for that matter, a Communist Party general-secretary) managed to extend his reach as far as Yunnan, those links were disrupted; but whenever the centre's grip slipped, Yunnan's ties to the south were promptly restored.

Today that pattern no longer holds. Together with Myanmar, Vietnam, Cambodia, Laos and Thailand, China is taking part in a joint scheme to develop the Greater Mekong Subregion. Co-ordinated by the Asian Development Bank (ADB), the project has been under way since 1992; it involves building and improving transport and telecom links between the six countries. The project's next stages call for a variety of creative adjustments to the tangle of customs and visa regulations that slow the movement of goods and people along the new rails and roads and across the borders.

Yunnan has gained a great deal already, and stands to gain more. He Xuan, deputy director of the Yunnan Provincial Economic Research Centre, points to the rickety rail line that now carries 500,000 tonnes of Chinese electronics goods and agricultural products to Vietnam each year. Built by the French in 1910, the line links Yunnan's capital, Kunming, to the Vietnamese port of Haiphong. After the improvements are completed in 2008, Mr He expects to see a tenfold rise in Chinese freight volume, and believes the newly efficient route to the sea will allow Yunnan to export its mineral commodities at internationally competitive prices.

Poor areas are already beginning to benefit as well. One of the new highways runs through impoverished

Nanhua county, allowing farmers there to get their goods to food-processing plants in other parts of Yunnan, and out to foreign markets. Dai Liju, the county's deputy chief, credits the new highway with a fourfold increase in its residents' average income and a 13% average annual rise in Nanhua's GDP over the past ten years.

Infrastructure, however, will not solve all the problems. Thai officials, for example, are sufficiently enthusiastic about the scheme to have joined China and the ADB in lending Laos $900m to build its bit of the Kunming-Bangkok highway link. But at the same time, they insist that Chinese farm goods be kept out if they fail to meet Thailand's stricter food-safety standards. Such is the stuff of which trade—or worse—disputes are made.

Its officials also hope to attract some private investment into the scheme. Optimism runs high that the region—with its mineral and energy resources, its low-cost labour and its improved infrastructure—will indeed tempt punters from the private sector. But so far, admits Rajat Nag, the director-general of ADB's Mekong department, “investors have not been knocking down the door.”

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Pakistan

Brassed off

Nov 6th 2003 | LAHORE
From The Economist print edition

The armed forces' uncivil behaviour

Get article background

GENERAL PERVEZ MUSHARRAF is getting prickly. Last week he ordered the arrest of Javed Hashmi, the acting head of the Pakistan Muslim League (Nawaz), whose real leader, a former prime minister, lives in exile. Mr Hashmi was arrested soon after holding a press conference at which he claimed to have got a letter from anonymous army officers criticising the Musharraf junta and calling for its overthrow. He has not been produced in court.

The arrest has galvanised the opposition. Parliament, which is already deadlocked between General Musharraf and the opposition parties over the question of power sharing, was last week the scene of angry protests about Mr Hashmi's detention. But the early sympathy for Mr Hashmi's plight expressed by parliament's speaker swiftly evaporated when the prime minister, Zafarullah Jamali, issued a warning that anyone who tried to give the army a bad name would meet the same fate.

Recent incidents have helped to make the army unpopular among civilians. Last month, a policeman challenged a car with tinted glass (which is against the law) carrying the family of a senior general in Lahore. The top brass, furious, ordered the provincial inspector-general of police to strip the wretched constable of his duties. The media got wind of it and much public anger resulted.

That row had hardly died down when a constable who had issued a speeding ticket to an army vehicle in Multan was beaten up and had to go to hospital. The media were told not to report the event. Two months ago, a group of students and a local journalist were arrested in Baluchistan province and charged with sedition for distributing calendars mocking the army. These incidents follow months of press reports saying that hundreds of serving and retired army officers have taken over top civilian jobs in the bureaucracy, public-sector corporations and universities over the past three years.

The government is threatening to make more arrests in connection with Mr Hashmi's case. But most people find it difficult to understand the need for such a reaction. Foreign visitors who have recently met General Musharraf say he constantly points out that there is no dissent in the army's rank and file over his domestic and foreign policies, and that he remains firmly in control. Whether that is true or not, the army's prolonged incursion into politics and its insistence on enjoying the privileges and perks of power have certainly irritated, if not embittered, many civilians.

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Israel

Can the bloody stalemate be broken?

Nov 6th 2003 | JERUSALEM
From The Economist print edition

Reuters

Ariel Sharon, Israel's prime minister, says he is sticking to his guns and his old policies, but he is being squeezed to think anew

Get article background

A FAINT flurry of diplomacy, a lull in the suicide bombings and a slight let-up in the military blockades have produced a glint of hopeful expectation after months of gloom and ominous escalation in the Israeli-Palestinian conflict. Ahmed Qurei (also known as Abu Alaa) is soon likely to win parliamentary approval to head a new and more permanent Palestinian government after running a temporary emergency cabinet for several weeks. Ariel Sharon, Israel's prime minister, says he will then meet Mr Qurei and resume the negotiations that collapsed with the fall of his predecessor, Mahmoud Abbas (also known as Abu Mazen) two months ago.

Other Israeli officials, sniffing the wind, are conferring with key Palestinians. The defence minister, Shaul Mofaz, has seen the Palestinian finance minister, Salaam Fayed. The director of Shin Bet, Israel's security service, met Jibril Rajoub, a former top Palestinian security man who has recently returned to favour with Yasser Arafat, the ever-durable Palestinian leader. Israel's foreign minister, Silvan Shalom, says he too will hobnob with top Palestinians.

Another big Palestinian suicide bomb would once more probably blot out such glimmers of hope. One was averted on November 3rd when a 16-year-old Palestinian youth from Nablus blew himself up when surrounded by troops after a tip-off that he was about to cross into Israel. Behind the scenes, co-operation between Israeli and Palestinian security people is improving and has helped prevent a number of attacks, though Israel's measures to ease the sieges in the Palestinian territories are still tentative and easily reversible. More Palestinian workers are again being let into Israel from Gaza and the West Bank. Public transport inside the territories is operating more freely. But Israeli tanks still surround the main Palestinian towns and private traffic is still restricted. Thousands of worshippers were turned back from Ramadan prayers at the holy mosques in Jerusalem on Friday October 31st; Israel permitted only married men aged over 45 and women over 35 to attend.

The scepticism voiced by Mr Qurei about these hints of better times is widely felt both among Palestinians and less hawkish Israelis. Meeting just for the sake of meeting is pointless, he says. Is Mr Sharon ready for a reciprocal ceasefire and for serious negotiations?

Mr Sharon says he is. The latest world leader to be told that he is “ready for painful concessions” was Russia's Vladimir Putin, who hosted the Israeli leader this week in the Kremlin. There are new reasons, moreover, why Mr Sharon should be ready—or at least, why he should say he is.

His army chief of staff, Lieutenant-General Moshe Yaalon, caused a stir last week when he called in journalists to say that the government was courting disaster by trying to hold down the Palestinians in a vice-like grip without offering any realistic prospect of a peace deal. Israel, said the general, had been harsh and niggardly to Mr Abbas during his short-lived premiership. It should not behave in the same short-sighted way towards Mr Qurei.

In an initial burst of fury, Mr Sharon demanded General Yaalon's apology or his head. But on cooler reflection the prime minister was apparently persuaded that the general's words, albeit constitutionally improper, reflect deep distress in the army high command and far beyond. “My door is always open to him,” an expansive Mr Sharon said this week.

The prime minister faces other pressures at home. His Likud party took a drubbing in local elections last week. Party workers reported a worrying countrywide lassitude. An economy in recession, with Israel hovering this week on the brink of a general strike, is also sapping the Likud's strength and Mr Sharon's popularity. Investigations into his election finances and the business dealings of one of his sons may further undermine him.

Watch your back

The party's largest coalition partner, the centrist Shinui Party, is drafting a proposal for the evacuation of the Jewish settlement of Netzarim, in the heart of the Gaza Strip, where three soldiers, two of them women, were shot dead in their beds by a Palestinian infiltrator last month. Mr Sharon previously spurned any talk of “withdrawal under fire”. Now, sounding more tolerant, he says, “Let them present it, then we'll see”.

Mr Sharon has expressed only fury, with no such hint of tolerance, for the “Geneva accord”, an unofficial blueprint for peace recently agreed among a group of Israeli and Palestinian politicians led by Yossi Beilin and Yasser Abbed Rabbo, both former ministers and official negotiators. Their effort, discreetly backed by the Swiss (hence its name) and other Europeans, has produced, in exhaustive detail after many months of wrangling, a much more specific deal than is offered, for instance, by the “road map” charted by President George Bush. The Geneva accord proposes a Palestinian state on almost all of the West Bank, with minor land swaps to let Israel annex certain Jewish settlements. Jerusalem would be partitioned and become the “capital of two states”. The Palestinian refugee problem would be comprehensively resolved through compensation and resettlement in the state of Palestine, with some modest resettlement (without an open-ended “right of return”) in Israel.

Mr Sharon has condemned this idea as a betrayal. But an opinion poll found that two out of five Israelis would support it. Mr Beilin and his colleagues, among them some prominent Labour Party MPs, plan a big campaign to win over more minds. A similar unofficial accord worked out earlier this year by Ami Ayalon, a former director of the Shin Bet, and Sari Nusseibeh, a leading Palestinian moderate, has reportedly rounded up some 90,000 Israeli signatories and, more significantly, 60,000 Palestinian ones.

Both these accords have won support from governments and commentators abroad. Both flow from the premise that time is running out for a two-state solution—and hence for Israel's survival as a Jewish state. Soon there will be more Palestinians than Israeli Jews living between the Jordan river and the Mediterranean. If the current stalemate persists, more Palestinians may stop aspiring to an independent state alongside Israel and start demanding one man one vote in a single state—where they would be the majority.

Is time for two states running out?

In an editorial last week the *New York Times* agreed that “with every passing year of increased Jewish settlement in [Palestinian] occupied areas, the possibility of cleanly dividing the land between two peoples fades. That is why there is such urgency to gaining support for the new peace initiatives...” That sense of urgency may at last be seeping into Israel's public debate. More commentators and politicians in the peace camp speak of the demographic danger threatening Israel as a Jewish democracy. Mr Sharon,

though, still pooh-poohs it. The solution, he says, lies in getting more Jews to immigrate to Israel.

As to the current impasse, he says, the road map is still the way forward. Drawn up last year by the Americans, the European Union, Russia and the UN, it provides for a ceasefire and a settlement freeze, then the creation of a Palestinian state with “provisional” borders, and then a rather vague process for negotiating a final agreement. Beset by troubles in Iraq (see article), America may be losing interest in the road map. But Mr Sharon, rattled by the growing support at home for the two unofficial accords that he likes much less, is embracing the nebulous map with renewed, if belated, enthusiasm.

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Iraq

A tale of American woe

Nov 6th 2003 | BAGHDAD AND MOSUL
From The Economist print edition

Opposition to the American-led occupation is becoming bolder

AFP

A chopper brings joy to the resistance

Get article background

IT IS hard to find anyone in Iraq who is happy just now. True, some Sunni Arab tribesmen noisily cheered the downing of an American helicopter on November 2nd, with the loss of 15 soldiers on board. But other Iraqis know that more trouble for America is likely to mean more trouble for them: more irksome security that snarls up traffic and raises the risk of humiliating brushes with foreign soldiers, more delay before the country gets fixed, and more time before the Americans go.

For coalition forces, the gloom is even starker. The destruction of a helicopter by missile fire may have caused the largest single-day toll since the actual invasion of Iraq. Yet that blow was perhaps less significant than other recent knocks.

For two nights in a row this week, the “green zone”, the supposedly impregnable seat of the Coalition Provisional Authority (CPA) in the heart of Baghdad, came under mortar fire. And in other parts of the country that had been relatively calm, such as Mosul in the north, where America's 101st Airborne Division has won local trust and sustained its own morale, the pace of attacks has suddenly sharpened. After the rocket assault on the Rashid Hotel in Baghdad that killed an American colonel two weeks ago, assailants this week hit a hotel in Mosul that houses American officials.

Meanwhile, in the chronically restive badlands north and west of Baghdad, known to westerners as the Sunni triangle, the tougher tactics used to flush out insurgents have produced little except more loathing for those who use them. The number of daily attacks on coalition troops there, now around 30, is up by 50% since July. The casualty rate has risen even faster, from one coalition body bag a day in September to two or more daily in the past two weeks, not counting the one-off toll in the downed helicopter. The scale of violence may remain “strategically insignificant”, as an American commander put it recently, but it certainly makes the whole costly Iraq project look far more troubling, especially to American voters a year before they pick their president.

A litany of losses

But the growing boldness of the shadowy resistance goes beyond sniping at Americans. Suspected FRLs,

as the coalition labels former regime loyalists, last week murdered Baghdad's deputy mayor. This week they killed two judges, mortared the Kurdish parts of Kirkuk, a relatively calm city, and shook the Shia holy city of Karbala with a car bomb, killing three passers-by. And the fear spread by last month's gory suicide bombings in the capital continues to take hold. All it took to empty the city's schools for three days this week was a handful of threatening leaflets. Iraqi parents were not the only ones spooked. Several embassies and aid missions made their skeleton staffs even thinner.

Hard as it is to put a gloss on the sombre mood, there is some good news. The American Congress's passage of a package worth $87.5 billion for Iraq and Afghanistan, with more than $18.6 billion earmarked for Iraq's reconstruction (and most of the rest intended to pay for troops, to keep the peace mainly in Iraq), marks a huge commitment. There are signs, too, that the danger of violent schism among Shias, the majority group, whose conditional acquiescence in the occupation has helped calm southern Iraq, is abating. Muqtada al-Sadr, a preacher with a following among the Shia poor, has softened his anti-American rhetoric, belatedly responding to the real fear of a slippage into chaos felt by ordinary Iraqis.

Positive, too, in Iraqi eyes, is that the country's American overseers, chastened by their inability to provide security, seem increasingly convinced that the Iraqis themselves can do a better job. Iraq's nascent local police forces are poorly equipped but have had some effect in reducing petty crime, and even in deterring terrorist attacks. They also appear to be quite popular. Despite numerous and murderous assaults on police stations, few officers have quit, and volunteers are plentiful. Besides, concur both Iraqis and Americans, even a weak force is far better able to navigate Iraq's baffling subtleties than America's beefy but sometimes rude and bumbling troops.

At a Baghdad press conference this week (which, incidentally, provoked Iraqi complaints because it was held at precisely the hour for the breaking of the daily Ramadan fast), Paul Bremer, the CPA's head, announced plans to increase dramatically the size of Iraqi security forces and speed their assumption of control. A year from now, he said, they should number 200,000, including 70,000 policemen, 50,000 security guards, 40,000 civil-defence troops and 26,000 border guards. Less publicly, discussions are also under way to accelerate the revival of an Iraqi army and domestic intelligence service, both of which would have to draw on cadres from the disbanded Baathist services.

Iraqis are quick to note that such steps represent yet another climbdown from America's initial go-it-alone approach. It comes none too soon, say members of the American-appointed Governing Council, whose members, along with Iraqis of all political stripes, often blame Mr Bremer's decision back in May to dissolve the Iraqi army for much of the current mess. Now, noting the CPA's new mood for compromise, many are pushing for other moves to restore Iraq's sovereignty.

One idea gaining ground is for the 25-member Governing Council to be expanded fourfold, and be transformed into a proper legislature. Not only would this allow for a more open debate of issues, say backers of the idea, it could also be a way to encourage more input from segments of society that feel under-represented.

The Sunni Arabs harbour the biggest grievance. Dominant in Mr Hussein's government and army, they keenly feel the humiliation of relegation to minority status. Even the many Sunnis who welcomed American intervention have changed tune under pressure from the combined weight of rising religious xenophobia, proto-Baathist calls to patriotism, and the spirit of tribal vengeance provoked by occupation. “We were promised democracy but got boots on our necks instead,” says Mishaan Jabouri, a maverick Sunni politician who feels that his help in trying to allay Sunni fears of America has gone unrewarded. “If you make enemies once, it's hard to turn them back into friends.”

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Teaching history in Iraq

Another vacuum opens up

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From The Economist print edition

What sort of history, if any, will Iraqi children now have to learn?

Get article background

UNDER Saddam Hussein, Iraqi schoolchildren in history classes imbibed the purest propaganda of the ruling Baath Party. Iraqis won every war, Mr Hussein was the most glorious defender of Arab unity. American and Zionist imperialism was at the root of all the world's suffering. Now, say American officials working for the ruling Coalition Provisional Authority (CPA) in Baghdad, Iraqi teachers are free to disseminate history as honestly as they can. But in their desire not to be thought to be shoving an equally distorted and subjective history diet down young throats, the Americans may be losing a chance to ensure that young Iraqis do get a more truthful version of the past.

This month, millions of revised history textbooks are set to roll off the presses for the country's 5.5m schoolchildren in its 16,000 schools. Every image of Mr Hussein and the Baath Party has been removed from all 563 revised texts. But so has much else. While “deSaddamising” the texts, the team revamping the curriculum has deleted anything deemed controversial, including any mention of the war between Iraq and Iran in the 1980s, the Gulf war of 1991, all references to Jews and Israel, Shias, Sunnis and Kurds, and anything critical of America. There is nothing about the Shia uprising in the south after the first Gulf war, and nothing about how Mr Hussein rose to power. Although Baathist propaganda is out, so is most of the modern history of the Middle East that has affected Iraq. “Entire swathes of 20th-century history have been deleted,” says Bill Evers, a Pentagon man who advises Iraq's education ministry.

Fuad Hussein, an Iraqi who has returned from abroad and is now in charge of revising the curriculum, says he plans to set up a committee made up of Iraqis from different religious, political and ethnic groups to debate and rewrite Iraq's history. But that, he concedes, will take years. Americans working for the CPA say that in any event Iraqis will take most decisions on the curriculum once a proper Iraqi government is running the show. Until then, Americans will stay in the background—unless they think things are going in completely the wrong direction.

It seems that it will be up to individual history teachers to explain gaps in the textbooks—or ignore them. Mahmood Kadhum Mohammed, a teacher at the al-Sharqiya School for Boys in Baghdad, says he will teach the new texts word for word, even if that means he has to leave controversial events out. But other teachers may seek to impart a different version. “The Americans are terrorists, and George Bush invaded our country to take oil,” says Sura Majid, aged 21, a would-be history teacher at the Baghdad University College of Education for Women. “That's what I'll tell my students.” All of her dozen classmates eagerly nod their approval.

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Zimbabwe and Africa

Counting the cost

Nov 6th 2003 | JOHANNESBURG
From The Economist print edition

The price of Zimbabwe's collapse for the rest of Africa

Get article background

Reuters

Are the Brothers M still holding hands?

WHEN Zimbabwe's despotic president, Robert Mugabe, finally leaves office, a shattered country will have to be rebuilt. His economy is the world's fastest-collapsing; its GDP has shrunk for four years in a row. Donors say they will be ready again to offer help once there is change. But what of the damage Zimbabwe has caused in the rest of the region?

Recently in Johannesburg, Don McKinnon, secretary-general of the Commonwealth, called attention to just that. Most obvious is the exodus: once 14.5m-strong, Zimbabwe now has nearer 11m people. “South Africa's [President] Thabo Mbeki tells me there are 3m Zimbabweans in his country, [President] Joaquim Chissano says 300,000 are in Mozambique, Botswana has perhaps 200,000 and repatriates 2,000 a day,” he said. Britain may host as many as 250,000.

Botswana is building a fence along its border to keep out both cattle infested with foot-and-mouth disease, and unwelcome human migrants. A detention centre in Francistown, on the same border, is bulging. Every few weeks, trains from South Africa disgorge thousands of Zimbabweans sent back home at the Beit Bridge border crossing. Some African leaders have told Mr McKinnon in private that Zimbabwe's troubles are scaring investors away from southern Africa as a whole.

A study by a South African economist, Mike Schussler, concluded that Zimbabwe's slump cost the region at least $2.6 billion in lost economic activity between 2000 and 2002, most of it in South Africa. Much of that was due to cancelled exports and the failure of Zimbabweans to pay for goods and services, such as electricity, exported from South Africa. A volatile South African rand, which collapsed against the dollar in 2001 and then recovered last year and this, was also partly blamed on uncertainty in Zimbabwe.

It is hard to gauge the damage done by lost investment and trade. But in some places it is plain. Central Mozambique's economy once relied on trade with, and transport receipts from, landlocked Zimbabwe. It now fares dismally compared with flourishing southern Mozambique, although Mr Chissano says hopefully that 60 white Zimbabwean farmers will soon start farming there. Zimbabwe used to have a grain surplus, which kept the region's price of food low; now it is a net importer—and for two years maize prices have soared across southern Africa, hurting the poor terribly.

It is harder to judge how much Zimbabwe's plight has hurt tourism in the region. While Zimbabwe's side of Victoria Falls is becoming tatty and neglected, the Zambian side and the town of Livingstone are prospering from diverted visitors. South Africa's tourist industry has not been hurt: last year's turnover was 20% up on 2001.

If the economics are hard to measure, what of the politics? Mr McKinnon and other observers put Africa into at least three camps over Zimbabwe; the splits may become plainer next month, when Commonwealth leaders meet in Nigeria.

One group, led by Zimbabwe and its closest allies, such as Namibia, Congo and Libya, oppose any

outside interference. Some of them want to boot Mr McKinnon out of his job. A second group, including Botswana, Ghana, Kenya and possibly Nigeria, is more outspoken. It may quietly seek to have Zimbabwe suspended from the body. Mr McKinnon says that “most African leaders want to see change take place and have said something negative about Zimbabwe”.

But most African countries, led by South Africa, dither between private criticism of Zimbabwe and support for Mr Mugabe, albeit sometimes lukewarm, in public. They want Zimbabwe back in the Commonwealth and may favour Mr McKinnon's sacking. Even the closure of Zimbabwe's free press, murderous rampages by Mr Mugabe's youth militia, and the arrest of the opposition leader on trumped-up charges have drawn no public criticism from South Africa, though ministers say privately that they are horrified and claim to have told Mr Mugabe so. On October 29th, Walter Kansteiner, the American administration's outgoing top Africa man, said that southern Africa's leaders had been too slow to recognise the difficulties Zimbabwe has been causing them. That's putting it politely.

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Press freedom in Eritrea

Where even the snoops are bored

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No news is not good news

“THE future is bright for Eritrea,” gushes a typical headline. Another announces that the country is “on track and looking ahead”, and another explains: “Why Issaias [Afwerki, the president] is one of the best leaders in Africa”. Newspapers in Eritrea tend to stress the positive, because they have no choice.

Two years ago, the government shut down all private and independent media. The state-owned papers fawn, and the national television station treats viewers to miles of old footage from the country's 30-year independence struggle against Ethiopia, interspersed with reports of Mr Afwerki opening factories.

The government is growing increasingly dictatorial. Elections have been postponed, political parties banned, and hundreds of students and politicians have been detained without trial. So have 15 journalists. But you won't hear about any of this in the Eritrean media.

In many ways, Eritrea is easy to control. It has only 4.4m people, and few of those outside the capital, Asmara, have access to any sort of journalism. After years of war, even Asmara is isolated. Tourists are thin on the ground, foreign publications are rarely available, and satellite television and the internet, though increasingly popular, cost far too much for most.

The information drought affects nearly everyone. The atmosphere in the once open and friendly city is subdued. In its bustling, Italian-style coffee bars, people obsessively analyse the latest rumours. Whispers may concern an attempted coup by the police, the mysterious death of a presidential driver, even an attempt to assassinate the president, who is said to employ a lookalike to attend public events on his behalf. Are any of these stories true? Eritreans have no way of knowing.

The few foreign correspondents in Asmara have learned to live with telephone and e-mail tapping. The surveillance is neither high-tech nor subtle. Tell-tale signs include a familiar “ding” when the receiver is replaced, and occasional bored sighs from the eavesdropper. Foreign journalists are tolerated, so long as they stick to stories about aid and the border dispute with Ethiopia. If they talk about domestic politics, their visas may be revoked. Local freelancers for foreign news organisations face worse risks. A reporter for a French news agency was imprisoned with her baby for 18 months for writing a story the government didn't like. More recently, the Voice of America's local stringer was arrested after reporting the distress of families of soldiers who had died fighting against Ethiopia.

According to the Committee to Protect Journalists, an American-based lobbying group, more journalists are now in prison in Eritrea than in any other country in Africa. The government insists its clampdown is necessary for reasons of “national security”. It promises that charges will soon be laid against those detained; but when, and what, are anybody's guess.

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Germany's federal constitution

Untangling the system

Nov 6th 2003 | BERLIN
From The Economist print edition

Efforts to cut through the knotty German federal system may not get far

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CONSTITUTIONS are like computer-operating systems: the older they get, the clunkier they are—and the more often they crash. Germany's 54-year-old *Grundgesetz*, or Basic Law, is, say critics, ripe for a rewrite. This week a commission comprising members from both legislative chambers, the elected Bundestag and the upper-house Bundesrat, which represents the states or *Länder*, started discussion on "modernising the federal structure".

The commission's deliberations come, fittingly, just as the Bundesrat takes up debate on the government's package of tax and welfare reforms known as Agenda 2010. For the critics say that the biggest problem with German federalism is that levels of government are so intertwined that they often block each other, making any reform exceedingly hard.

The federalism commission is not the first to try to cut the Gordian knot that some call *Politikverflechtungsfalle*, or joint decision-making trap. But never before has there been such demand, right across the political spectrum, for something to be done. Some of the country's leading think-tanks have called for a sweeping reform. Many free-market businessmen are calling for a more competitive federalism.

When Germany first tried (and failed) to give itself a national constitution in 1849, at a convention in Frankfurt, federalists faced a similar challenge to those confronting Europe's constitution-builders today: how to integrate already fully developed states, meaning not just Prussia but also such places as Bavaria and Württemberg. Short of starting another war, getting these states together meant accommodating entrenched political interests.

This initial set-up has put Germany on a unique constitutional path, argues Gerhard Lehmbruch, a political scientist. The Frankfurt convention came up with a concept now called executive federalism: the federal government makes most of the laws, but it leaves their implementation to the states. In 1867 Bismarck established the Bundesrat, a powerful representative body for the states, one function of which was to serve as a negotiating forum.

A similar federal structure was reinstated after the second world war, though this was largely thanks to

the allies, who did not want a powerful central government. But they did not impose American-style federalism, which would have meant a directly elected Senate instead of a Bundesrat, partly because the *Länder* had already re-established themselves.

Given that Germany's federalism is more a product of history than of the vision of framers, the system has worked well. But in recent years, it has often come to a grinding halt. One problem is that the Bundesrat now has a say in over 60% of federal legislation, instead of the 10% or so intended when the Basic Law was written. This is partly the result of financial changes in the late 1960s. But it is also because the federal government has extensively exercised its right to legislate, taking power away from states and instead giving them more say at federal level.

Plenty of countries have two powerful chambers, often designed to make legislation harder. But in Germany it can cause near-constipation when combined with Germany's elections. Sixteen *Länder* means as many elections: an average of one every three months. This has had two effects. One is that opposition parties often gain control of the Bundesrat, making change harder. The other is that governments are inhibited from radical reform for fear of an approaching state election.

What is more, the Basic Law ordains a “uniformity of living standards” throughout the country. This explains the complicated redistribution system among the *Länder*, which ensures that tax revenues per head never fall far below the national average. This system of redistribution is increasingly a disincentive to reform and job creation, since the so-called *Finanzausgleich* acts as a tax on success.

Because this slows Germany down just when the need for reform is at its greatest, members of the “Convention for Germany”, a new lobby group, favour radical surgery. The poorer *Länder* should be merged into economically more viable entities, says Hans-Olaf Henkel, one of the group's founders and a former IBM executive. If the states were given more areas of responsibility and the right to levy taxes of their own, they could compete with and learn from each other, creating conditions conducive to faster growth.

Such competitive federalism would certainly be an elegant solution, but it stands little chance of being implemented in the foreseeable future. Things would have to get much worse before the poorer *Länder*, especially, agree. Voters dislike mergers, as was shown in 1996 when they rejected one between Brandenburg and Berlin. Less radical adjustments could help, though: holding all state elections on one day of the year only, as in America; giving *Länder* the right to opt out of some federal laws; or disentangling the finances to give *Länder* more power.

The commission is expected to sit for about a year. Any proposed changes it comes up with will require two-thirds majority support in both the Bundestag and the Bundesrat. That points to a timid outcome in which the federal government cedes a few regulatory areas to the *Länder* and they shed some of the Bundesrat's veto power. But so far the federal government has listed only a few insignificant areas in which it is willing to relinquish its legislative rights. An additional complication is that the European Union has taken over many powers, giving rise to fears that it may ultimately supplant one level of government in Germany altogether.

Even if the commission fails to come up with radical changes, it may help to stoke up debates in other countries about the balance between centre and regions, including Spain, France, Austria, Italy and even Britain. Above all, though, it should feed into thinking over the EU's new constitution. If responsibilities between Brussels and national governments are not clearly separated, if subsidiarity—the notion that things are best done at the lowest possible level of government—is not strongly spelt out, and if financial interlinkages are not clarified, the EU could find that it too heads for a system crash.

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Slovakia

Fragile reformer

Nov 6th 2003
From The Economist print edition

A model of a modern prime minister

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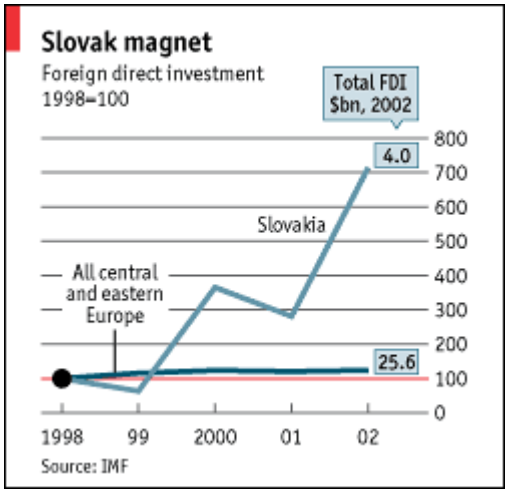

IF FOREIGNERS could choose prime ministers, Mikulas Dzurinda would probably be running Slovakia for the rest of his life. Since first taking charge in 1998 he has turned what was once among the more backward countries of central Europe into a model of reform, a regional leader in economic growth and a magnet for foreign investment (see chart).

The reforms continue. The Slovak parliament has just voted to cut taxes on personal incomes and corporate profits to a single flat rate of 19% next year. It has also approved a new law to raise the statutory retirement age and create privately managed personal-pension accounts, into which workers will pay half their compulsory contributions. The resultant shortfall in the pay-as-you-go state pension scheme will be covered for a few years by privatisation revenues.

Yet though foreigners may cheer, Slovak voters are unimpressed. Recently they ranked Mr Dzurinda as one of their least trusted politicians, with an approval rating of just 5%. They gave top marks to Robert Fico, a left-leaning opposition leader, whose approval rating was five times as high. Mr Dzurinda might retort that unpopularity is the fate of all reformers. Slovaks dislike the raising of the retirement age, even though a greying population makes it essential. They dislike even more the small health-care charges that the government introduced in June, to clear the debts of the hospital system.

Smart political manoeuvring, not popularity, has kept Mr Dzurinda ahead. Twice he has claimed the prime minister's job (after elections in 1998, and again last year) by knitting together complex coalitions that have shut more popular rivals out of power. The present coalition comprises Mr Dzurinda's party, the SDKU; the Christian Democrats; a new liberal party, ANO; and the SMK, a party for Slovakia's ethnic Hungarians. But the worry is that Mr Dzurinda may be losing his wizardry at managing coalitions. An emotive squabble over abortion-law reform, pitting the Christian Democrats against ANO, refuses to die down. A power struggle has led three ANO members to defect, costing the coalition its assured majority in a parliament that is now evenly divided.

Mr Dzurinda's judgment has also been called into question by his insistence on sacking a top security official, Jan Mojzis, for no good reason. When the defence minister, Ivan Simko, objected, Mr Dzurinda sacked him too, and also ousted him as vice-chairman of the SDKU. According to Mr Mojzis, Mr Dzurinda wanted a particular company to win a contract for installing a government computer system, but Mr Mojzis refused to give the company the necessary security clearance. Whatever the truth, the affair has left the prime minister looking petulant at best, sleaze-tainted at worst.

Mr Dzurinda can still find parliamentary majorities for specific bills, as he did for the tax and pension laws. But the initiative lies increasingly with Mr Fico, who is clever, cynical, and ambitious. Lately he has been making eyes at Mr Simko, who may turn against Mr Dzurinda when he has worked out the most devastating way of doing so. One possibility is that Mr Fico will urge Mr Simko to run in next April's presidential election. By doing so, Mr Simko would take votes from the SDKU's official candidate, Eduard Kukan, the foreign minister. He might split the coalition, winning support from the SMK, which does not greatly like Mr Kukan. With Mr Fico's backing, Mr Simko could then end up as president. Even the

redoubtable Mr Dzurinda would find it hard to survive so complex a humiliation.

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European Union enlargement

Big brother is still watching

Nov 6th 2003 | BRUSSELS
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Prospective members get their knuckles rapped

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IF THE ten countries due to join the European Union in May 2004 thought it was all over when they signed their accession treaties last April, they have been rudely awakened. For years they jumped through hoops at Brussels's behest. On November 5th the European Commission issued a sharp reminder that they cannot afford to relax, when it issued a new series of reports consisting of long “to do” lists—and pointing out that countries could lose cash and even market access if they do not shape up.

Three further candidates were also told what they need to do to join. Bulgaria and Romania were both criticised for corruption and failure to implement administrative reforms. Romania was told that it was still not a “functioning market economy”. And Turkey, which has yet to receive the go-ahead even to begin negotiations, was dismayed that the commission linked its membership to a settlement of the Cyprus dispute.

Among the ten new members, Poland, by far the biggest, also got the most black marks. The commission identified no fewer than nine areas of “serious concern”, where it feels that Poland has yet to live up to its treaty commitments. The Poles (with five other miscreants) are chastised for failing to introduce “minimum training requirements” for several professions, including health-care workers. This, the commission says, could threaten their prospects of working in the rest of the EU.

Polish agriculture also comes in for a bashing: controls on the movement of live animals, animal waste, food processing and the spread of disease are all deemed inadequate. This, the commission says, could lead to “restrictions on the production and marketing of (Polish) products.” Computer systems and legal procedures for handling EU money are also found wanting, which could delay longed-for cash from Brussels.

All this comes at a sensitive time in relations between Poland and the EU. After the initial euphoria that followed the end of negotiations and Polish voters' approval of membership in a referendum, things have gone downhill. The Polish government and parliament have both sworn to strike out provisions in the draft EU constitution that would dilute Poland's voting weight in the Council of Ministers. But they appear all but isolated. Combine a disagreeable new constitution with threats to bar Polish goods and professionals, and to delay EU cash: Poland may enter the Union next May in a seriously bad mood.

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Turkish women

Discrimination rules

Nov 6th 2003 | ANKARA
From The Economist print edition

Controversy over the law on rape

IF A rapist marries his victim, he can walk free. It sounds an outrageous notion. Yet it is what the law says in Turkey. And if the country's justice minister, Cemil Cicek, heeds one of his advisers, the law will not be changed. Recently Professor Dogan Soyaslan declared, during a parliamentary debate on changes to Turkey's penal code, that “nobody would want to marry a girl who is not virgin.” Mr Soyaslan concluded that it was fine for a victim to marry her rapist, rather then face a lifetime of spinsterhood.

Mr Soyaslan would have been sacked in most countries. Not in Turkey. Instead, the professor spouted more wisdom in an interview with a conservative daily, *Milliyet*. His boss, Mr Cicek, has yet to utter any reproof. When a member of the opposition Republican People's Party suggested that Mr Soyaslan's words might encourage sexual assault, he was accused of ignoring “Turkey's realities”.

It was modern Turkey's founder, Kemal Ataturk, who gave Turkish women the right to vote in 1934 and told them to jettison their veils. Over the past year, the Turkish parliament has been approving legal changes that would further promote equality. Today, for example, a Turkish man is no longer automatically treated by law as the head of the family, and women are entitled to an equal share of joint assets after a divorce. Perpetrators of so-called honour killings of women who have been accused of tainting the family name are no longer eligible for reduced sentences.

Yet even with these changes, traces of old attitudes linger. Mothers who murder infants can still get reduced sentences if the babies were born out of wedlock, though a relative who does the job will no longer be able to. “That's meant to be progress,” sniffs Feride Acar, a sociologist. Another provision making kidnapping a married woman a graver crime than kidnapping a single one remains untouched. So long as men who think with “organs other than their brains” continue to have a say over such laws, says Halime Guner, head of a women's-rights group, there is little hope of a change of mentality in Turkey.

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Russia's oligarch wars

Face-off

Nov 6th 2003 | MOSCOW
From The Economist print edition

The fight between Yukos and the Kremlin is far from over

Get article background

EPA

Free the Yukos one

BY STEPPING down as chief executive of Yukos, Mikhail Khodorkovsky has freed his company to do what it does best: extract oil. A ministerial threat that Yukos might lose operating rights in some oilfields has dampened things. But the new Yukos boss, Simon Kukes, is just what nervous investors want, and he is an American citizen to boot. As it happens, both men have a murky history (see article). But throughout the four-month-long prosecutors' campaign against Yukos that ended with Mr Khodorkovsky's arrest, Mr Kukes professed total detachment.

President Vladimir Putin, who was this week in Rome for a summit with European leaders (who largely glossed over both Yukos and Chechnya), has engaged in his own damage limitation. He continues to pretend that Yukos's troubles had nothing to do with Mr Khodorkovsky's meddling in politics. But he has said several times that there will be no mass review of the suspect privatisations of the 1990s. He disavowed the threat to oilfield operating rights. And he even seemed to rebuke prosecutors for going after Yukos with such force; they, in turn, released some of the company's shares that they had frozen a few days earlier.

The Kremlin constellations are shifting. The resignation of Alexander Voloshin, chief of staff, robs Mr Putin of his ablest power-broker, and business of its most powerful ally. That was a victory for the security-services faction, or *siloviki*—though Mr Putin tempered it by replacing Mr Voloshin with Dmitry Medvedev, his deputy, seen as a neutral “reformist”. But Alexei Kudrin, the reformist finance minister, surprisingly welcomed Mr Voloshin's departure and made sharp comments about Yukos. He may be positioning himself to take over from Mikhail Kasyanov, prime minister and another business ally, whose resignation has, like Mr Voloshin's, been rumoured for months.

Business interests seem ready to resist, however. Anatoly Chubais, the head of the state electricity company, UES, who was the most outspoken critic of Mr Khodorkovsky's arrest, has reportedly invited Mr Voloshin in as UES's chairman full-time. (He had been chairman before, but in a more titular role.) The rest of Russia's business elite have remained fairly silent, but the newspapers they control have devoted much space to dire warnings about Russia's descent into authoritarianism.

Meanwhile, Yukos's lawyers are preparing a long charge sheet against the prosecutors. And the contacts Mr Khodorkovsky has cultivated abroad are paying off in a wave of outraged newspaper articles and even a Senate statement by John McCain, urging the American government to be tougher on Mr Putin. Jail, it seems, has hardened Mr Khodorkovsky's resolve.

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The Caucasus

Loss of balance

Nov 6th 2003 | BAKU AND TBILISI
From The Economist print edition

Political turmoil is growing in the Caucasus, and so is the region's importance. But is the rest of the world paying attention?

IMAGINE holding a cannonball packed with explosive up on three fingers, while several people push from various sides with increasing force. That gives an idea of what the Caucasus is like. The pushers are Russia, Europe and the United States, for which the region's location and energy reserves are starting to matter more and more. The explosive is the internal ethnic and political strife that could flare at any moment. And the three aching fingers are the leaders who have kept the Caucasus countries under control until now.

Two of those fingers have suddenly been weakened. In Azerbaijan, a blatantly rigged election on October 15th pushed Ilham Aliyev into the presidency, replacing his father, Heidar, who has not been seen since his hospitalisation (first in Turkey, now in America) in June. In Georgia, parliamentary elections on November 2nd—also fraudulent, though less so—reduced the size of the block of parties loyal to President Edward Shevardnadze. Both changes herald new uncertainties.

Ilham Aliyev, say optimists in Baku (many foreigners among them), may be a dynastic heir with little political experience; but he is well-educated and progressive, and he has a cadre of like-minded people in the government who will help him to reduce Azerbaijan's rampant corruption and to stimulate its atrophied non-oil economy. He was also the least-bad choice: the opposition is a gaggle of bickering has-beens, many from the coalition that ran the country unhappily for a year in 1992-93.

The new president's critics, on the other hand, say he is a lazy playboy (one man who worked down the corridor when Mr Aliyev was a vice-president at the state oil company says that the future president used to come to work at noon and leave in the early afternoon). He will, they claim, be a puppet of his father's cronies, who still hold all the most powerful jobs. And he will be unable to cope with the internal rivalries and delicate geopolitical negotiations that his father managed so adroitly. His biggest test will be the 15-year-old conflict with Armenia over Nagorno-Karabakh, which is populated by Armenians but internationally recognised as part of Azerbaijan. Heidar Aliyev tried but failed to make peace with Armenia; his son will struggle even to maintain the ceasefire. (Armenia's president, Robert Kocharian, is little better, as he owed his own rigged election earlier this year to hardliners, who will not permit a compromise over Karabakh either.)

In Georgia, meanwhile, the worry is whether Mr Shevardnadze, due to retire in 2005, will go quietly, try to impose a successor, or even wangle a third term. The parliamentary election was lively, with many different parties and people queuing for hours to vote; but lots of them couldn't because of a mix-up of voter lists that many think was deliberately engineered to weaken the opposition. The official result put the pro-government block in the lead, but after exit polls and a parallel count by outside observers, whose presence prevented more serious fraud, the biggest single vote was awarded to an opposition coalition. If similar tricks are played in the 2005 presidential election, the winner will have little popular support. As it is, Mr Shevardnadze's approval rating already stands no higher than 11-14%, according to Gorbi, a pollster.

Legacy habits

That old practices are still so evident 12 years after the Soviet Union's collapse is beginning to disturb locals. Georgians like to see themselves as the last hope for democracy in the region. If Mr Shevardnadze's successor is not fairly elected, he will be vulnerable to other forces, notably Russia, which has much sway over Georgia's semi-autonomous republics of Abkhazia and South Ossetia. In Baku, critics of the regime talk darkly of a populace, sick of fake democracy, being tempted into radicalism or even Islamic fundamentalism. Such talk is to some extent scare-mongering, but flashpoints certainly exist. Last year religious conflict, rare in Azerbaijan, reared its head in the village of Nardaran, when a headmaster's refusal to let girls wear headscarves ignited bigger protests over unemployment and other ills.

This might all be business as usual in the Caucasus, were it not for one other factor. Foreign oil firms that signed big exploration contracts in Azerbaijan are beginning to see them bear fruit. Over the next 20 years the country will make about $29 billion from its oil, according to the International Finance Corporation, which this week confirmed that it will finance a pipeline already being built to carry oil from Baku to Ceyhan, on Turkey's Mediterranean coast. Another pipeline will bring gas from the Caspian to Erzurum. Georgia, across which the pipelines will run, will collect a small but tidy sum in transit fees.

This “energy corridor” should enrich the region. But there are complications. One is the risk that the Azerbaijani windfall will be misspent. It will go into a state oil fund, which will dispense it in measured doses to the state treasury. The fund, most analysts think, is fairly transparent and will do its job properly, but the treasury is another story. If Mr Aliyev cannot control the corrupt ruling cliques and the money does not go into education and development, people will start wondering what has happened to their promised bonanza. That could spark more unrest.

The other big problem is Russia. Although it meddles less overtly than it once did in Georgia's breakaway republics and in Karabakh (where it sided with Armenia), it has now turned to economic influence. The Caspian energy corridor competes with its own pipelines. Earlier this year Russia's state-owned gas giant, Gazprom, signed a framework agreement on supplying gas to Georgia. Its terms are vague, but they could make it easier for Russia to cut off the gas in winter, as it has before, as a form of political pressure. It might, says Gia Chanturia of the Georgian International Oil Corporation, a partner in the pipelines, allow Gazprom to steal a march on the Baku-Erzurum pipeline, by getting its gas to Turkey first through the existing network. Whatever the motive, this increases Russia's foothold in Georgia, and so its interest in weak leadership.

In short, both countries need leaders whom the people actually voted for, and who are not in thrall to other forces. In Baku, the opposition complains that foreign observers did not criticise the election harshly enough, and that the oil firms would rather prop up the existing regime than deal with the uncertainty of a new one. In Tbilisi, they say America is too soft on Mr Shevardnadze, who still commands respect as one of the Soviet Union's demolishers. It is, of course, in the opposition's interests to say such things. But foreign donors are also frustrated that aid money goes astray. Nobody seems to know how to promote democracy here.

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Charlemagne

Stability or instability

Nov 6th 2003
From The Economist print edition

Europe's stability pact meets national sovereignty

MENTION the words “national sovereignty” in Brussels and you are likely to get a pitying look. For those building the Europe of the 21st century, the idea of “sovereignty” has a distinctly passé, 19th-century ring to it. Europhiles admit that nation-states still exert a certain atavistic hold over the imaginations of ordinary Europeans. But the reality, according to Brussels orthodoxy, is that in the modern world European countries must “pool sovereignty” to get things done. The point was put well by Gerhard Schröder, the German chancellor, in a speech in the Netherlands in 1999, just after the birth of the single currency. “The introduction of the euro”, declared the chancellor, “is probably the most important integrating step since the beginning of the unification process. This will require us to bury some erroneous ideas of national sovereignty.”

National control of interest rates came to an end with the arrival of the single currency. But the countries adopting the euro also approved rules limiting their sovereign control over decisions on taxing and spending. Unless a euro member is in a severe recession, it is not meant to run a budget deficit of more than 3% of GDP. Any country that breaches this ceiling for three years in a row is subject to sanctions, and ultimately to fines that can run to billions of euros. These strict rules, known as the “stability and growth pact”, were adopted at the insistence above all of the Germans, who wanted an absolute assurance that countries with a long history of fiscal incontinence would not damage the euro-area economy.

Hoist with one's own petard

By a nice irony, however, a sustained period of low growth has meant that Germany itself is now unable to keep below the 3% mark. The latest forecasts from the European Commission suggest that Germany will breach it for the third year running in 2004. The result is that the commission may soon propose mandatory budget cuts in Germany, as a last step before the imposition of fines. Faced with this prospect, Mr Schröder seems to be having some difficulty ridding himself of those “erroneous ideas of national sovereignty”. The idea that the German government may lose control of its national budget and be put under supervision by Brussels is, it seems, too humiliating to contemplate. The Germans are now employing a collection of legalistic, political and economic arguments to avoid accepting the rules that they themselves wrote.

Fortunately for Germany, they have allies in this fight. The French are even farther down the slippery slope to fines than their friends on the other side of the Rhine. The commission has proposed that, in 2004, France should cut its structural deficit by a further 1% of GDP. France is refusing to do as much. This week European finance ministers bravely postponed a vote on this awkward issue until the end of the month. But by then the commission may also be proposing to act against Germany, under the same treaty provision, known to *cognoscenti* as Article 104 (9). This article, as a senior commission official puts it, “is the very last step before financial sanctions”.

The French have made themselves vulnerable by ignoring previous commission recommendations. The Germans say that, by contrast, they have followed all suggestions previously made under the less onerous Article 104 (7): they have just been unlucky with the economy. So they argue that the commission should invoke Article 104 (7) once again, rather than moving to tougher measures under Article 104 (9). Commission officials are not impressed. “It's like when you are playing a game with your kids,” says one. “If they begin to lose they want to start all over again.” More substantively, the commission points out that the Schröder government is proposing to cut taxes next year, so it can hardly argue that it is doing everything in its power to curb its deficit.

If the commission forces a head-on confrontation with France and Germany later this month, however, it is the French and Germans who will probably win. Sanctions or demands for mandatory budget cuts need to be approved by member governments, and the big two have enough support among their fellows to block them. But any such “victory” would, in effect, kill the stability pact.

France, which never liked the pact in the first place, would not lose much sleep over that. But for Germany it would be a momentous step. Less than a year ago Hans Eichel, the German finance minister, pledged “my complete and undivided support for the stability and growth pact, despite the problems Germany is having with its public budgets.” Mr Eichel argued then that the pact was vital to the economic and political stability of Europe. This week, in marked contrast, he was saying that countries that “co-operate” by trying to cut their deficits should not be subject to sanctions.

Others, however, still believe that rules are rules. On October 29th, in his farewell address before stepping down as president of the European Central Bank, Wim Duisenberg called the stability pact “a contract with every single citizen of the euro area” and one of the two pillars supporting the stability of the single currency (the other being the bank). He gave warning that several countries seemed to be on the brink of breaking the pact's rules. In that case, he concluded, “the pact will unravel, the contract with the people will be broken.”

The difficulty for Mr Schröder and Mr Eichel is that keeping to the terms of this contract could cause a political crisis in Germany. When hard-hit developing countries submit to the supervision of the International Monetary Fund, their citizens rarely react kindly. Why should it be any different if the orders come from Brussels, not Washington? It is easy to call national sovereignty an “erroneous idea” in a flowery speech. It is rather harder to see that lesson applied in practice—and at home.

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Interest rates

The interest rate squeeze starts

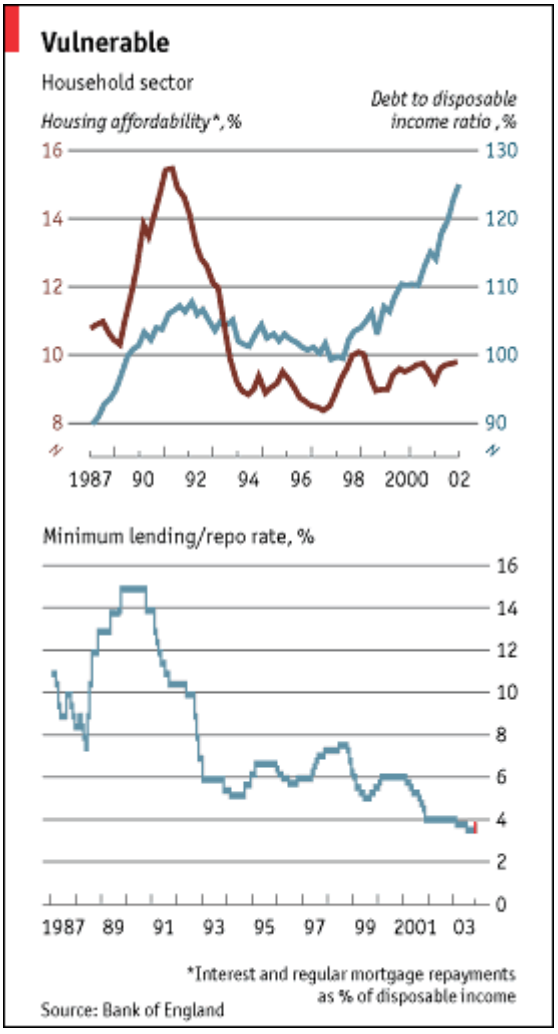
Nov 6th 2003
From The Economist print edition

The economy can cope with higher rates, but consumers will be unhappy. That is bad news for the government

Get article background

THE “nice decade” is how Mervyn King, governor of the Bank of England, recently dubbed the past ten years. Now the Bank has turned nasty and raised interest rates from their 48-year low of 3.5% to 3.75%. More rises lie ahead. That prospect awakens miserable memories. In the late 1980s rates rose, pricking a housing bubble. Many households got into debt difficulties, the housing market collapsed and there was an ugly recession.

These worries have intensified since the housing market spurted upwards again over the summer. Earlier in the year, house-price inflation slowed appreciably from its peak of around 25% a year at the end of 2002, giving hopes of a soft landing. But the number of mortgage approvals for new loans in recent months has been the highest in 15 years. Total borrowing has been rising by 14% a year. According to the Nationwide building society, house prices rose by 2% in October alone, pushing the annual rate up from 15.5% to 16.1%.



That has pushed the ratio of house prices to income above even the high of the late 1980s. The debt-to-income ratio is also now much higher than it was a decade ago. For the household sector as a whole, total debt (principally mortgages) is now well above annual disposable income; for homebuyers, the debt-to-income ratio is much higher.

An important difference with the late 1980s is that the immediate cost of servicing and repaying debt is much lower. That increased affordability is why households have leapt at the chance to buy homes in the past few years.

But the fall in inflation that makes those low interest rates possible also means that debt stays around much longer. And the rise in the debt-to-income ratio means that households will feel the squeeze at considerably lower interest rates than in the past. Base rates of 5% will create the same burden—interest and mortgage repayments as a proportion of disposable income—as base rates of 10% did a decade ago, says John Butler, an economist at HSBC, a bank.

So much for the worries. How justified are they? The City's futures market is betting on a rise to 5% by the end of 2004, but its traders often get it wrong. Many City economists think the increase will be considerably less; for example, Mr Butler thinks that rates will rise only a further quarter-point to 4% next year, because of the greater sensitivity of households to higher debt. The impact of a rise is also likely to be diluted by a recent switch of new borrowing into fixed loans. The Council of Mortgage Lenders reckons that nearly a half of new loans in the third quarter of this year were fixed, generally for around two years.

Even if rates do rise to 5% by the end of 2004, this will be a long way from the peak of the late 1980s. In just six months in 1988, interest rates rose from 7.5% to 13%. By late 1989 they had reached 15%.

This highlights a central contrast between then and now, argues Ben Broadbent, an economist at Goldman Sachs, an investment bank: the economy is generally in much better shape. Interest rates had to be yanked up then because inflation was rising sharply and the economy was overheating. Today, by contrast, inflation is under firm control and the economy is currently operating a little below its capacity. Unlike the early 1990s, employment should remain high; as long as people have jobs, they will generally be able to cope with higher loan costs.

Homeowners should still expect a cold shower, though. A fall in house prices at some point seems highly likely. That will make people feel poorer, causing them to cut their spending. But the economy is now less vulnerable, chiefly because it is more open to trade: foreigners exporting to Britain share more of the pain of a fall in domestic consumer spending, explains Ray Barrell of the National Institute of Economic and Social Research. Suppose house prices fell by 10%: the effect on GDP would be over a third less than from an equivalent decline a decade ago.

There is one final difference. In 1990, Britain joined the European exchange-rate mechanism and therefore lost control of interest rates. So rates stayed painfully high for much longer than they should have done. A floating currency means the Bank of England can cut rates if need be.

The economic pain that lies ahead will be less deep than in the early 1990s, then. But political pain for the government is another matter. Higher taxes are already eating into living standards. An end to the house-price boom will add to the misery. This week's rise in interest rates heralds the end of the feel-good factor—and with it a loss of goodwill towards a government that has benefited so much and so long from that nice economy.

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Anti-Americanism

Hail on the chief

Nov 6th 2003
From The Economist print edition

President Bush's state visit to London is fraught with potential pitfalls

SMILES all round, and lots of good publicity. That is what state visits are meant to be about. But George Bush's trip to London in two weeks' time threatens to bring scowls and horrid headlines aplenty.

It comes at a bad time. The majority of the British public regards the Iraq war as wrong and its aftermath disastrous. The government is divided about a highly unpopular decision to allow four contaminated semi-derelict American naval ships to be scrapped in Britain. They are due to arrive three days before Mr Bush.

For Tony Blair, therefore, the visit has many minuses and few pluses. Even otherwise loyal supporters find his close association with the American president mystifying, or downright repellent. For all the geopolitical arguments in favour of Atlanticism, it is proving an electoral liability. Opinion polls shortly before the war found that almost half those asked agreed that the prime minister is “Bush's lapdog”.

Fuelled by such popular sentiment, a coalition of anti-war, anti-globalist, environmental and anarchist groups is promising a hot reception for “the warmonger-in-chief and his cronies”.

Both host and guest face a difficult few days, cocooned from hostile demonstrators by a huge security operation. The man who runs the police in London, Sir John Stevens, has cancelled all leave for his force. Up to 4,000 additional officers will be on duty and hundreds of American secret service agents are flooding into London. Though the police will not confirm this, the threat of violent disorder seems to have aborted some plans for the visit, notably the usual horse-drawn carriage procession from Buckingham Palace.

Glenn Frankel, London bureau chief of the *Washington Post*, points out that anti-war demonstrations in London are likely to be “a rude awakening” for Americans brought up to regard not just Britain as their most loyal ally, but the British people as their greatest friends. However well protected the president and the prime minister may be from the mob, televised pictures of flag-burnings, or the planned toppling of an effigy of Mr Bush in Trafalgar Square, will strike an unfamiliar and discordant note.

The main group organising the protests, the Stop the War Coalition, claims that the response it has been getting to its plans to disrupt the visit has been “phenomenal”. Planned protests include an alternative procession following a mock coffin. Another protest outfit, Globalise Resistance, says that many groups and activists are organising to make London as “unwelcome as possible” for the president.

The police face potentially unmanageable problems in striking a balance between security and allowing peaceful protests. During the visit of the Chinese president, Jiang Zemin, in October 1999, police tactics towards demonstrators, which included the forcible removal of protestors and seizure of their banners, prompted strong criticism.

The Bush visit will be even worse. If the protestors are kept in check, there will be furious complaints about police heavy-handedness. If they are allowed free rein, it will ruin the visit. Mr Blair's only hope now is that a flu virus visits the White House first.

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Fireworks

Bang bang you're banned

Nov 6th 2003
From The Economist print edition

Fireworks are a nuisance but a new law is unlikely to make much difference

GUY FAWKES night is going out with a bang. Britain's annual fireworks festival on November 5th was the last before tough new laws restrict the size of fireworks, regulate sales and institute a curfew. Some police chiefs want to ban private fireworks altogether.

It is a big market. Around 12m people attend organised displays alone. Britain consumes around 10,000 tonnes of fireworks every year.

Some of this is just jollity. But there is a growing menace from firework hooliganism too. British Telecom says fireworks have been let off in 2,237 telephone boxes so far this year. Some 30 have been destroyed in Liverpool alone. Royal Mail pillar boxes have also been wrecked, and the letters inside destroyed. Cars have been targets too. A particularly nasty and dangerous habit is posting lit fireworks through domestic letterboxes. Anne Widdecombe, a Tory MP, was a recent victim of this. It terrified, she said, her 92-year-old mother. Pets find loud bangs terrifying too: that infuriates animal-lovers.

Why the new trend? One reason is yobbishness. Another is economics. Fireworks, in real terms, have got a lot cheaper and are now in demand all year round, partly for religious festivals and partly just for general exuberance. Thirdly, European single-market rules forced Britain to scrap its system of import licences in 1993.

The new laws will establish regular inspections of firework shops and depots, financed by an increased licence fee. Currently a fireworks sales licence costs only £13 ($21.70). The new one will cost about £200. Other measures include limiting the permitted bang to 120 decibels. This would rule out the Giant Flash Report rocket, a new type of projectile favoured by those who care little for pretty coloured stars, but like a really loud noise. And letting fireworks off after 11pm will be illegal.

Will it work? Experience so far suggests that legal restrictions alone are ineffective. There are tough constraints on firework sales in Northern Ireland, but nobody takes much notice. Making life more expensive for retailers will create incentives for illegal traders who already benefit from undercutting their law-abiding rivals. And the curfew will be hard to enforce. “If you see a firework explode 400 feet in the air it is hard to know who let it off on the ground”, says Tom Smith of the British Pyrotechnists Association.

A better approach would be more confident and vigorous policing. There are plenty of existing laws to deal with people who create a public nuisance, whether by letting off fireworks or other means. Timid, deskbound police are often loath to make arrests for fear of yet more paperwork.

A second remedy would be to curb the illegal trade, which helps irresponsible buyers to get hold of large and dangerous products. Almost all Britain's fireworks are imported from China. At the ports, 10-20% leak out of official distribution channels, and are sold anywhere, such as in pubs or from car boots. Liverpool's fire service recently found 1.7 tonnes of fireworks illegally stored in a private house.

Thirdly, enforcing better the existing law that bans sales to anyone under 18 can make a difference: in Liverpool, the authorities cut firework-related disorder by 20% last year by using hidden cameras to film shops that sold fireworks to children and then fining them.

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Church of England

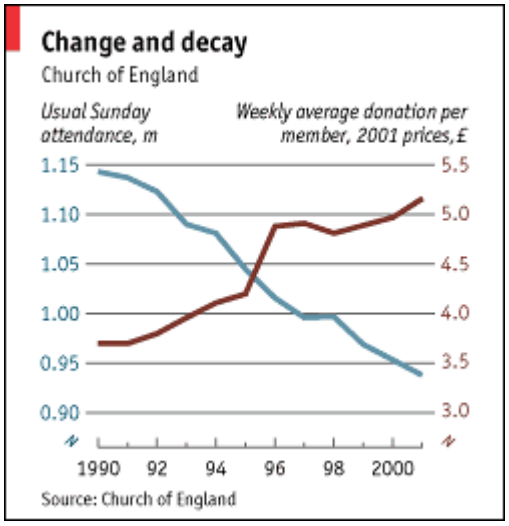
Tithing trouble

Nov 6th 2003
From The Economist print edition

Headaches about homosexuality are just one of the church's problems

ADAM SMITH thought the Church of England was doomed. Any clergyman who relies on a benefice for his income, he explained in “The Wealth of Nations” in 1776, has little incentive to give parishioners what they want. In a competitive market, the “men of learning and elegance” who staff the established church will gradually lose market share to “popular and bold, though perhaps stupid and ignorant” independents, who rely on voluntary contributions from their hearers.

As so often with economists' predictions, the timing may have been out. But the conclusion looks inescapable. The Anglican church is swiftly disappearing in Britain, even as it thrives in Africa and Asia. Other large, financially centralised outfits such as the Roman Catholic and Methodist churches have declined too. But the Church of England's situation is especially difficult because it is burdened with an expensive, unwieldy administrative structure and lots of beloved, old but expensive buildings.



Between 1990 and 2001, the church lost 18% of its Sunday communicants, 17% of its clergy (none of them bishops)—and 1% of its buildings. The Church Commissioners' gradually shrinking endowment of £3.5 billion ($5.9 billion), is about half the value of, say, Yale University's investments. Like other declining organisations, the church is weighed down by its obligations to past generations. Last year, 70% of gross endowment income went on paying pensions alone.

Parishioners have, so far, made up much of the shortfall from their own pockets. Donations per head have increased steeply in recent years (see chart), in part because the disappearance of working-class believers has left congregations older and wealthier. But as Peter Brierley, executive director of Christian Research, a thinktank, points out, the upward trend in giving cannot go on forever. Eventually, numbers of open-handed churchgoers will fall to a critical level, and the accounts will begin to look really bad.

What to do? Evangelicals, who run many of Britain's successful churches, think they have the answer: go conservative. Derek Tidball, a Baptist pastor who runs the London Bible College, argues that demand for moral guidance is holding up, but liberal churches fail to offer an alternative to the secular mainstream. Survival means developing a distinctive product.

Economists who have studied religion agree. They say that a touch of extremism helps to deter free riders; barriers to entry make those inside feel that their efforts to believe and belong have brought a practical benefit.

A different approach would draw on the experience of another religious group that Anglicans increasingly resemble in social composition: British Jews. Implicitly recognising that religion is at least in part a private good, Jewish congregations have introduced pricing mechanisms, such as charging higher fees in wealthy parts of London and making occasional visitors pay for their seats. These have kept them solvent despite declining membership.

Such steps would be difficult for a church that defines itself by a distaste for extremism and a desire to keep an open door for the whole nation—even if the nation shuns it. But the collapse in central church finances may force individual parishes to compete harder and demand more commitment. “Learning and

elegance” may be on the way out.

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Politics

Slowly, unsurely

Nov 6th 2003 | KETTERING, NORTHANTS
From The Economist print edition

What the Tories are doing—and not doing—in a crucial target seat

IF THE Conservative Party is going to recover at the next election, it must win Kettering—the kind of parliamentary seat in the middle of England that it used to hold without really trying. But in 1997 a crunchy majority of 12,187 turned as soggy as a bowl of the Weetabix breakfast cereal that is the constituency's best-known product. Having squeaked in with a majority of 189 then, Labour's Phil Sawford, a fiery left-winger, raised the margin of victory to a still-slender 665 in 2001.

Given that history, one might expect the local Tory machine now to be a rather well-tuned outfit, with a top-notch candidate backed by a bevy of fired-up local activists, and a bunch of hot-shots from the national party giving advice. It isn't.

The Kettering Conservative Association operates from a single room in the Conservative social club. It lost its full-time campaign manager 18 months ago, as it couldn't afford to pay him. The Tory candidate, a former paratrooper-turned-businessman called Philip Hollobone, now does the job himself, criss-crossing the constituency in an elderly white BMW, adorned with bumper-stickers. “Keep Gibraltar British” is one. Others defend hunting, farming and the pound. In tune with these patriotic sentiments, Mr Hollobone's home is festooned with multiple versions of Britain's Union flag.

Tories ahead?
Kettering's political battleground

	Labour	Conservative
Party members	369	700
Ward parties	18	21
Councillors	13	30
Electorate contacted before last election, %	68	70
Premises	No	Yes

Sources: Conservative and Labour constituency parties

That pleases his activists, who are chiefly occupied with raising funds from coffee mornings, lunches and the like to keep the party going. But his message, strongly anti-crime and against asylum-seekers, may not resonate so much with the wider public.

The big asset for the Conservatives in Kettering should be their control of the local council, won in May. Mr Hollobone is a councillor himself. The new administration has a decent record on local issues such as recycling, running the municipal crematorium well, and better financial management. But the parliamentary campaign seems only loosely connected with the local government base.

A bleak outlook then? Not necessarily. Kettering's Labour Party is also a volunteers-only outfit. Like the Tories, it lacks a youth wing. It also has no premises, and is lumbered with an unpopular government plan to build 15,000 new homes on the outskirts of the town. But the Labour activists are younger. They are willing to defend policies they may not agree with privately. They seem more in tune with the preoccupations of mainstream voters. And the Labour government's splurge on public services has had practical benefits, for example new kit for the local hospital.

Neither side has much regular contact with the voters. The Tories are trying to contact all 45,000 households in the constituency with questionnaires, backed up by phone calls and doorstep visits. They did this during the last election, getting responses from about 70%. Labour did the same, with 68%. Both sides keep the data in computer systems—“Bluechip” for the Tories and “Contact” for Labour—and try to concentrate their efforts accordingly.

The rival parties distribute two or three constituency-wide leaflets a year; the more active wards also produce their own. The local paper says Mr Hollobone is indefatigable in getting his picture published. Both he and his Labour rival hold regular constituency surgeries, as do the more active local councillors.

A rising national tide for the Tories would most likely get Mr Hollobone elected. But it is a sign of both parties' grassroots weakness that the local contest is not fought harder and more skilfully.

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Politics

Ken's coming back

Nov 6th 2003
From The Economist print edition

The mayor of London, Ken Livingstone, is about to be forgiven by his old party

Get article background

ON COURSE for re-election next June by a margin of at least 20 points, Ken Livingstone looks unstoppable. Now the Labour Party, which expelled him three years ago for running as a rebel candidate for the mayorship, is bowing to the inevitable and preparing to forgive him. Nicky Gavron, Labour's official candidate who is currently running a poor fourth in the polls, has got the message. She is privately discussing the terms on which she would be prepared to stand down.

The Labour Party, understandably, has no wish to see its official mayoral candidate humiliated once again in the run-up to a general election. The prime minister, Tony Blair, is said by associates to be keen to get "Red Ken" back within Labour's tent. The chancellor of the exchequer, Gordon Brown, who neither forgives nor forgets, is strongly opposed. That perhaps explains why his wish to be a member of the party's national executive, which will decide Mr Livingstone's fate, was vetoed by the prime minister this week.

It may make little difference to Mr Livingstone's chances of re-election, but he too wants a reconciliation. His success in office depends on help from central government. He needs, he says, £900m from 2005 to plug the growing gap in his transport budget. Unless his old enemy, Mr Brown, provides more money, services to Londoners will suffer. Otherwise, the mayor says, from his eyrie near Tower Bridge, "life in London will be intolerable by the end of the decade".

Mr Livingstone's problems result chiefly from his ambitious expansion of subsidised bus services. There are now more than 1,000 extra buses on the streets; bus mileage is at its highest for 40 years and more passengers are travelling by bus than at any time since 1969. But the cost of subsidies has ballooned too. A second factor is the success of the congestion charge. The number of private cars entering the charged zone is down by 38% and traffic delays have dropped by almost a third. But the £60m annual revenues from the charge are barely half what was predicted.

One option would be to raise bus fares. But he has promised to raise them only in line with inflation in future. Another possibility would be to increase the congestion charge from the current £5, reduce discounts to residents inside the zone, and increase its area. But again, Mr Livingstone is constrained by his commitment that he will not raise it by more than inflation.

His other big campaign plank is a reduction in crime. Compared with 2000, he says, "I expect crime to be halved by 2006." Recruiting 3,000 extra officers has raised police numbers in the capital to 28,500. Having more police on the street works, says Mr Livingstone, banging a populist drum that he might have disdained in his radical left-wing past.

The mayor now makes a virtue out of his reputation for fast and fancy footwork. He speaks fondly of heroes such as New York's former mayor, Rudolph Giuliani. "Great cities do not throw up terribly respectable mayors," he says. True, but competence is popular too, and Mr Livingstone's ambitious plans may yet fall foul of public expectations.

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Postal services

Stamped out

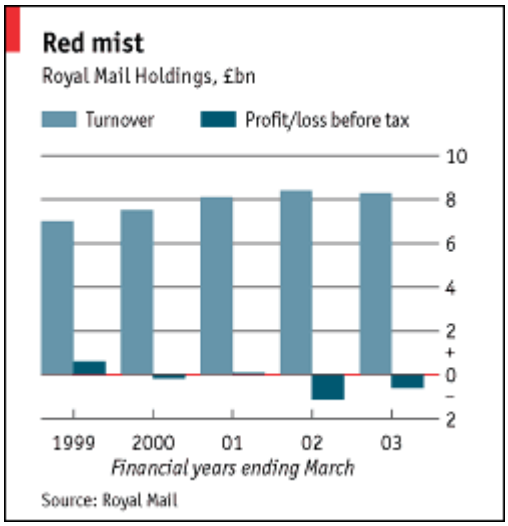
Nov 6th 2003
From The Economist print edition

The end of an unofficial strike does not solve Royal Mail's deeper problems

A DEAL in the small hours of Monday morning ended the wildcat strike at Britain's state-owned postal service, Royal Mail. Its larger problems remain.

After a fortnight of insults, the two sides met and agreed to talk more. That brought the posties back to work, above all those in London, whose October 17th walk-out, over cost-of-living allowances and much else, was rapidly being joined across the country. But the issues are still open: job losses, maybe 30,000 overall, in a workforce of 210,000; pay; and working hours and practices, which vary bizarrely from place to place. These issues nearly led to an official strike in September. Though a ballot failed to back that, the gaping disagreements have not gone away.

What has gone is a chunk of revenue; no one knows how much, but a fortnight of even a partial stoppage must worry an outfit that lost £611m in the year to March 31st, on a turnover of £8.3 billion. Gone too is a good deal of customer confidence. That poses a real threat, as competition, from other mail-carriers and from e-mail, grows. The strike pushed Tesco to move some delivery work to a private-sector operator. But that is trivial beside the potential loss of bulk mail. European Union rules are slowly freeing this business; the EU has cut to 100gm the item-weight above which competition must be allowed. The British regulator, Postcomm, wants to liberalise further still. Already firms sending out mailings of 4,000-plus items (of any weight) can use a private deliverer. That accounts for 30% of the market; 30% more will be freed when the threshold is lowered below 4,000 in 2005.



So far, Royal Mail still has 95% of the liberalised business, but can it keep it? Four groups, ranging from TPG, the Dutch postal all-but monopoly, to Express Dairies, have already won long-term licences from Postcomm. Some others have short-term ones, including Germany's state-run Deutsche Post. Royal Mail will have to open parts of its own system to such competitors—and, it fears, at a measly price. The company thinks at least 20p per item would be fair; competitors say about 10p. In one case, Postcomm's ruling, due soon, is likely to be 12-14p.

That raises political issues. Can today's one-price-to-everywhere (in Britain) system survive? Postcomm has a duty to see that it does. But only Royal Mail is willing to provide it. That fact, in itself, casts doubt on Postcomm's belief that “cherry-picking” of profitable services by others will be no big problem.

So the company's chairman since early 2002, Allan Leighton, has plenty to do, alongside his chief executive, Adam Crozier, a former boss of the Football Association. The parcels operation has already been fiercely shrunk. That cost some £300m, mostly for redundancy pay. Now it is the letter post's turn. The second daily delivery, which Mr Leighton has tried to kill already, carries only 4% of the mail, the company says, but adds 20% to costs.

But cutting costs means cutting jobs. Mr Leighton came in keen to settle the stroppy labour relations that have long plagued the firm. For a time, his plain speaking paid off. Unusually for a company chairman, he sounds like a man of the people. But talking like the workers doesn't make chopping their jobs any easier.

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Postal voting

Ballot box

Nov 6th 2003
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What price democracy? Postal voting may raise sagging turnout

DISMAL voter turnout in the 1999 European elections, of just 24%, has set officials thinking about what to do for the next poll in June. One plan is to shift May's council elections in England to coincide with the European vote.

Another idea is to save voters the trouble of trudging down to the polling station to vote in person. In local elections in 2003, councils that used postal voting enjoyed a 49% turnout, much better than the 35% average.

And what happens if there is another postal strike? The government and Royal Mail are looking at alternatives. But since ministers want to offer postal voting for around 10m voters, providing a back-up collection system as convenient as the existing postbox network will be tricky.

One solution might be electronic voting, using the internet or text messaging. But so far this has proved expensive and not very popular. In South Tyneside for example, postal voting in 2002 pushed the turnout up from 27% in 2000 to 55%. It was also cheap, costing £3.80 per vote compared with £4.96 per vote using conventional polling stations. But when e-voting options were added in 2003, just over a tenth of those voting used it and costs rocketed to £25.15 per vote.

So next June's experiments look set to cost a lot more than the £30m budgeted. In the long run, the advantages of postal voting may be yet another reason to end Royal Mail's monopoly.

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Bagehot

The Howard effect

Nov 6th 2003
From The Economist print edition

The Tories are right to be thankful for Michael Howard. But not to overdo it

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THERE has been something almost moving about the sudden outbreak of Tory euphoria accompanying the ascension (no other word seems appropriate) of Michael Howard. In a way, of course, it is slightly absurd. The new Conservative leader has been on something of a journey since the days when he was an abrasive and ideologically arrogant home secretary. But he is no messiah; rather, he is a highly capable old pro.

That is not to deny the importance of what has happened. Teetering on the edge of the abyss, Conservative MPs collectively discovered the gumption to step back. By dumping the wretched Iain Duncan Smith, eschewing the destructive pleasures of a leadership contest and choosing a serious, grown-up politician to lead them, they have opted for life over death. That British politics will be changed by what has happened over a remarkable few days is certain; what is less clear, is by how much.

The biggest change will be a united Conservative Party. Assuming that Mr Howard overcomes his own hitherto small “c” conservative instincts and reaches out to the party's social liberals by including a fair sprinkling of them in his frontbench team, the Tories will be less divided than at any time since Thatcherism's heyday. Michael Portillo may not be willing to return to shadow cabinet duty. But if the likes of Francis Maude, Mr Portillo's campaign manager in 2001, and the openly homosexual Alan Duncan are given decent jobs, it will be a signal of inclusiveness. Mr Portillo, who helped to undermine the last three leaders, will not try to repeat that with Mr Howard.

As a moderate Eurosceptic, Mr Howard is slap in the middle of today's Tory party. Whereas Mr Duncan Smith's finest hour was his sustained rebellion over the Maastricht treaty, Mr Howard was a steadfast member of a 1992-97 government that approached most European issues pragmatically. Given the remoteness of any decision to join the euro and the likelihood of further integration being stymied by the arrival of the ten accession countries, Europe should lose much of its political sting. If Mr Howard is sensible, he will keep his party together by limiting himself to the reasonable-sounding demand for a referendum on the new European constitution. A promise to renegotiate it once it is ratified, although tempting, would look to some like a threat to withdraw from the Union altogether.

Apart from the wonderful gift of being unopposed in his election as leader, Mr Howard the unifier starts with another huge advantage. Almost uniquely among senior Conservatives, he has given unwavering loyalty to every Conservative leader he has served. Such is his moral claim to the support of colleagues that even the most fratricidally inclined will pause for thought.

The significance of this new-found unity should not be underestimated. As any opinion pollster can demonstrate, nothing is more debilitating to electoral credibility than the impression of internal division. With good reason. A party preoccupied with its own affairs squanders the time and energy it needs to compete effectively in the political market-place. Many, if not most, of the Conservative Party's troubles stem from facing inwards rather than outwards. This meant that Tories failed to notice the way that society was changing and thus lost the ability to respond to the needs and concerns of their fellow citizens.

As well as unity, Mr Howard delivers competence. That too will make a change. The former barrister will bring much greater incisiveness to holding the government and, especially, the prime minister to account. The prime minister's staff are already trembling at the prospect of Mr Howard shredding Tony Blair's already rather tattered credibility when Lord Hutton delivers his report on the circumstances

surrounding the death of the weapons scientist, David Kelly. Mr Howard will also enjoy teasing out the differences between Mr Blair and the chancellor, Gordon Brown, over Europe and public-sector reform. As far as public services are concerned, he will portray Mr Blair as a closet Tory who wants to do the right thing, but cannot because he is held back by Mr Brown and his doctrinaire party.

Mr Howard can also be relied upon to run a much tighter ship than his predecessors. He is a firm believer in process and will use it to enforce a philosophical coherence that has been lacking. In education, for example, interesting ideas about giving parents vouchers to buy secondary education for their children are at odds with a highly statist approach to university funding. A disciplined electoral strategy will be built around communicating a few core policies effectively—much as Labour did before 1997.

The centre holds

Questions, however, remain. Unity is all very well, but it is possible to be united in error. Mr Howard has said he will lead his party from its centre, but the centre of the Conservative Party these days is a long way from the middle ground of British politics where elections are fought and won. You only have to look at Tory MPs to see what an odd and unrepresentative lot many of them are. Had Mr Blair chosen to lead Labour from its mid-1990s centre, its electoral rehabilitation would have been stillborn.

Mr Howard has also pronounced himself—a little too speedily—satisfied with the policies developed under his predecessor. Some of these, if they are carefully developed, have the potential to be as attractive to voters as Margaret Thatcher's sale of council houses. But others just look like expensive, uncosted bribes to the affluent middle classes. If Mr Howard really believes that he already has the basis for constructing a new, popular Tory majority, he is deluding himself.

That the Tories will do better under the clever and experienced Mr Howard is not in doubt. But whether he manages to change things a lot or only a little may ultimately depend on how much he has personally changed. And that is something which nobody, not even Mr Howard himself, yet knows.

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A nation apart

Nov 6th 2003
From The Economist print edition

The terrorist attacks of September 11th 2001 have not only widened the differences between America and the rest of the world, but have also deepened divisions within the country itself, says John Parker

AT NINE o'clock on the morning of September 11th 2001, President George Bush sat in an elementary school in Sarasota, Florida, listening to seven-year-olds read stories about goats. “Night fell on a different world,” he said of that day. And on a different America.

At first, America and the world seemed to change together. “We are all New Yorkers now,” ran an e-mail from Berlin that day, mirroring John F. Kennedy's declaration 40 years earlier, “Ich bin ein Berliner”, and predicting *Le Monde*'s headline the next day, “Nous sommes tous Américains”. And America, for its part, seemed to become more like other countries. Al-Qaeda's strikes, the first on the country's mainland by a foreign enemy, stripped away something unique: its aura of invulnerability, its sense of itself as a place apart, “the city on a hill”.

Two days after the event, President George Bush senior predicted that, like Pearl Harbour, “so, too, should this most recent surprise attack erase the concept in some quarters that America can somehow go it alone.” Francis Fukuyama, a professor at Baltimore's Johns Hopkins University, suggested that “America may become a more ordinary country in the sense of having concrete interests and real vulnerabilities, rather than thinking itself unilaterally able to define the nature of the world it lives in.”

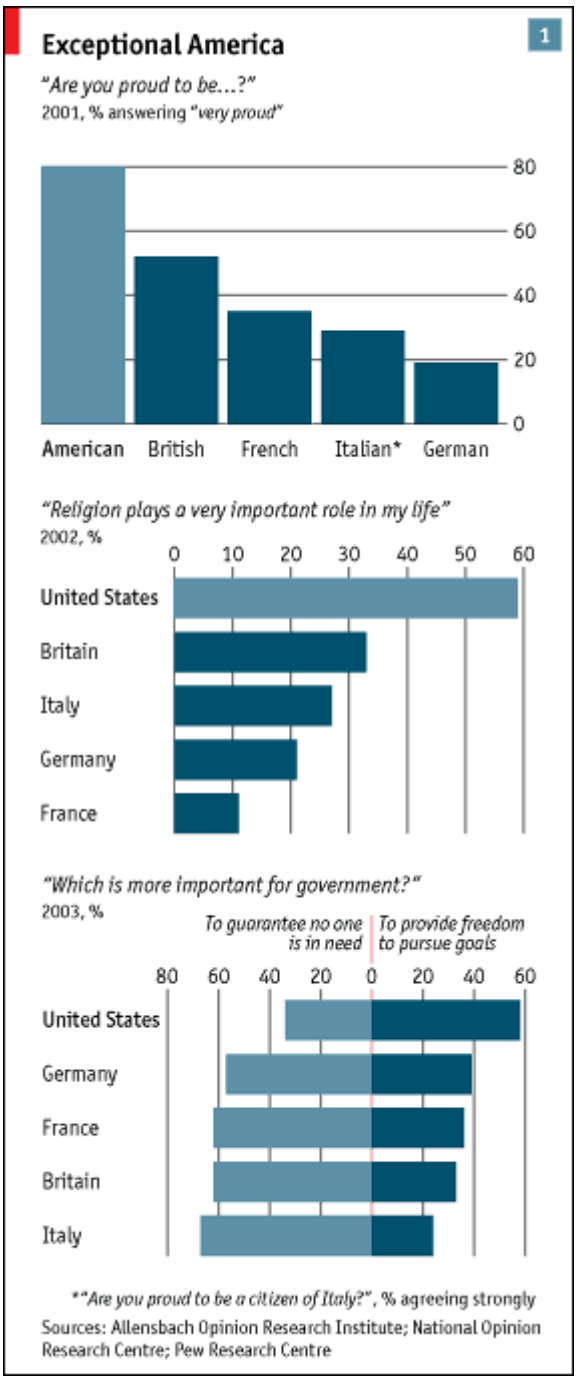
Both men were thinking about foreign policy. But global terrorism changed America at home as well. Because it made national security more important, it enhanced the role of the president and the federal government. Twice as many Americans as in the 1990s now say that they are paying a lot of attention to national affairs, where they used to care more about business and local stories. Some observers noted “a return to seriousness”—and indeed frivolities do not dominate television news as they used to.

But America has not become “a more ordinary country”, either in foreign policy or in the domestic arena. Instead, this survey will argue that the attacks of 2001 have increased “American exceptionalism”—a phrase coined by Alexis de Tocqueville in the mid-19th century to describe America's profound differences from other nations. The features that the attacks brought to the surface were already there, but the Bush administration has amplified them. As a result, in the past two years the differences between America and other countries have become more pronounced.

Yet because America is not a homogeneous country—indeed, its heterogeneity is one of its most striking features—many of its people feel uneasy about manifestations of exceptionalism. Hence, as this survey will also argue, the revival and expansion of American exceptionalism will prove divisive at home. This division will define domestic politics for years to come.

Not all New Yorkers any more

From the outside, the best indication of American exceptionalism is military power. America spends more on defence than the next dozen countries combined. In the nearest approach to an explicit endorsement of exceptionalism in the public domain, the National Security Strategy of 2002 says America must ensure that its current military dominance—often described as the greatest since Rome's—is not even challenged, let alone surpassed.



In fact, military might is only a symptom of what makes America itself unusual. The country is exceptional in more profound ways. It is more strongly individualistic than Europe, more patriotic, more religious and culturally more conservative (see chart 1). Al-Qaeda's assaults stimulated two of these deeper characteristics. In the wake of the attacks, expressions of both love of country and love of God spiked. This did not necessarily mean Americans suddenly became more patriotic or religious. Rather, the spike was a reminder of what is important to them. It was like a bolt of lightning, briefly illuminating the landscape but not changing it.

The president seized on these manifestations of the American spirit. The day after he had defined America's enemies in his “axis of evil” speech, in January 2002, Mr Bush told an audience in Daytona Beach, Florida, about his country's “mission” in the world. “We're fighting for freedom, and civilisation and universal values.” That is one strand of American exceptionalism. America is the purest example of a nation founded upon universal values, such as democracy and human rights. It is a standard-bearer, an exemplar.

But the president went further, seeking to change America's culture and values in ways that would make the country still more distinctive. “We've got a great opportunity,” he said at Daytona. “As a result of evil, there's some amazing things that are taking place in America. People have begun to challenge the culture of the past that said, ‘If it feels good, do it'. This great nation has a chance to help change the culture.” He was appealing to old-fashioned virtues of personal responsibility, self-reliance and restraint, qualities associated with a strand of exceptionalism that says American values and institutions are

different and America is exceptional in its essence, not just because it is a standard-bearer.

On this view, America is not exceptional because it is powerful; America is powerful because it is exceptional. And because what makes America different also keeps it rich and powerful, an administration that encourages American wealth and power will tend to encourage intrinsic exceptionalism. Walter Russell Mead of the Council on Foreign Relations dubs this impulse “American revivalism”. It is not an explicit ideology but a pattern of beliefs, attitudes and instincts.

The Bush administration displays “exceptionalist” characteristics to an unusual extent. It is more openly religious than any of its predecessors. Mr Bush has called Jesus his favourite philosopher. White House staff members arrange Bible study classes. The president's re-election team courts evangelical Protestant voters. The administration wants religious institutions to play a bigger role in social policy.

> *“For 50 years, it has been constantly repeated to the inhabitants of the United States that they form the only religious, enlightened, and free people. They see that up to now, democratic institutions have prospered among them; they therefore have an immense opinion of themselves, and they are not far from believing that they form a species apart in the human race”*
>
> de Tocqueville

It also wears patriotism on its sleeve. That is not to say it is more patriotic than previous governments, but it flaunts this quality more openly, using images of the flag on every occasion and relishing America's military might to an unusual extent. More than any administration since Ronald Reagan's, this one is focused narrowly on America's national interest.

Related to this is a certain disdain for “old Europe” which goes beyond frustrations over policy. By education and background, this is an administration less influenced than usual by those bastions of transatlanticism, Ivy League universities. One-third of President Bush senior's first cabinet secretaries, and half of President Clinton's, had Ivy League degrees. But in the current cabinet the share is down to a quarter. For most members of this administration, who are mainly from the heartland and the American west (Texas especially), Europe seems far away. They have not studied there. They do not follow German novels or French films. Indeed, for many of them, Europe is in some ways unserious. Its armies are a joke. Its people work short hours. They wear sandals and make chocolate. Europe does not capture their imagination in the way that China, the Middle East and America itself do.

Mr Bush's own family embodies the shift away from Euro-centrism. His grandfather was a senator from Connecticut, an internationalist and a scion of Brown Brothers Harriman, bluest of blue-blooded Wall Street investment banks. His father epitomised the transatlantic generation. Despite his Yale education, he himself is most at home on his Texas ranch.

Looked at this way, the Bush administration's policies are not only responses to specific problems, or to demands made by interest groups. They reflect a certain way of looking at America and the world. They embody American exceptionalism.

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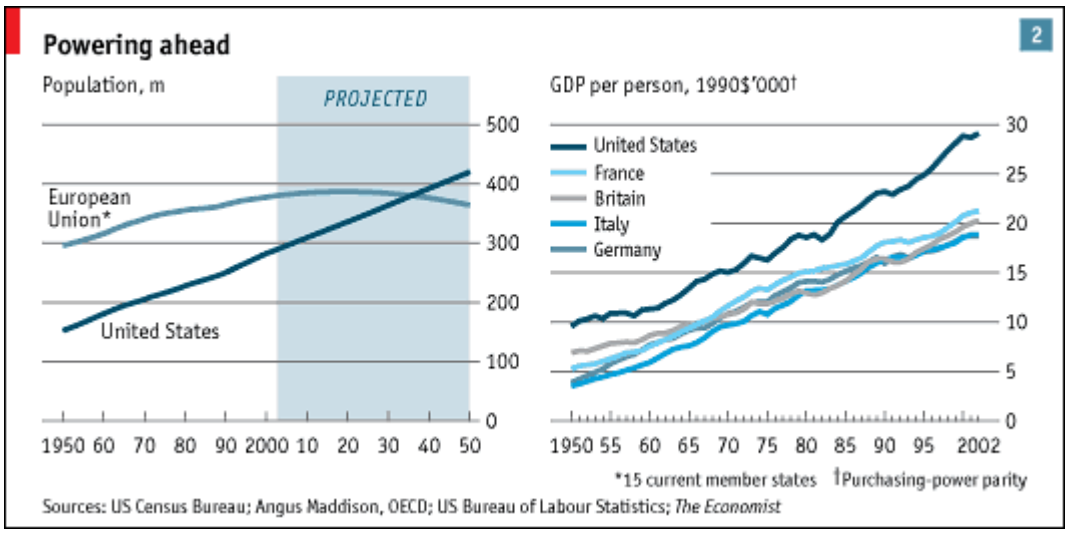
From sea to shining sea

Nov 6th 2003
From The Economist print edition



American exceptionalism is nothing new. But it is getting sharper

"EVERYTHING about the Americans," said Alexis de Tocqueville, "is extraordinary, but what is more extraordinary still is the soil that supports them." America has natural harbours on two great oceans, access to one of the world's richest fishing areas, an abundance of every possible raw material and a huge range of farmed crops, from cold-weather to tropical. Not only is it the fourth-largest country in the world, but two-thirds of it is habitable, unlike Russia or Canada. Any country occupying America's space on the map would be likely to be unusual. But as de Tocqueville also said, "Physical causes contribute less [to America's distinctiveness] than laws and mores."

In his 1995 book "American Exceptionalism," Seymour Martin Lipset enumerates some of these laws and social features. In terms of income per head, America is the wealthiest large industrial country. It is also the only western democracy to have practised slavery in the industrial era. It has the highest crime rate and highest rate of imprisonment (though crime, at least, is falling towards European levels). Its society is among the most religious in the world. Perhaps less obviously, Americans are more likely than almost anyone else to join voluntary associations.

America has a highly decentralised political system, with federal, state and local governments all collecting their own taxes, writing their own laws and administering their own affairs. Its federal government spends a relatively low share of national income. The country has more elective offices than any other, including, in some states, those of judges, which means that in each four-year cycle America holds about 1m elections. Not surprisingly, perhaps, it also has one of the lowest voter turn-outs, making it at once the most and the least democratic democracy.

It has no large socialist party, and never has had. Nor has it ever had a significant fascist movement. Unlike conservative parties in Europe, its home-grown version has no aristocratic roots. America has one of the lowest tax rates among rich countries, the least generous public services, the highest military spending, the most lawyers per head, the highest proportion of young people at universities and the most persistent work ethic.

But the term "exceptionalism" is more than a description of how America differs from the rest of the world. It also encompasses the significance of those differences and the policies based upon them. People have been searching for some wider meaning to the place since its earliest days. In 1630, the year the Massachusetts Bay Company was founded, John Winthrop, the colony's governor, described his new land as "a city upon a hill, the eyes of all people are upon us."

And as they have looked, people have found two quite different reasons for thinking that America is special. One is that it is uniquely founded on principles to which any country can aspire. In 1787, Alexander Hamilton wrote in the first Federalist Paper that “It seems to have been reserved to the people of this country, by their conduct and example, to decide the important question, whether societies of men are really capable or not of establishing good government from reflection and choice, or whether they are forever destined to depend for their political constitutions on accident and force.”

That is America-as-model. George Bush has embraced the idea. Commemorating the first anniversary of the attacks of September 11th 2001, he said that “the ideal of America is the hope of all mankind.” He was echoing Lincoln, who called America “the last, best hope of earth”.

But exceptionalism has another meaning: that America is intrinsically different from other countries in its values and institutions, and is therefore not necessarily a model. Thomas Jefferson said that “Every species of government has its specific principles. Ours are perhaps more peculiar than those of any other in the universe.”

> *“All the causes tending to the maintenance of a democratic republic in the United States can be reduced to three: the particular and accidental situation in which Providence has placed the Americans; the laws; habits and mores”*
>
> *de Tocqueville*

In 1929, Jay Lovestone, the head of the American communist party, was summoned to Moscow. Stalin demanded to know why the worldwide communist revolution had advanced not one step in the largest capitalist country. Lovestone replied that America lacked the preconditions for communism, such as feudalism and aristocracy. No less an authority than Friedrich Engels had said the same thing, talking of “the special American conditions...which make bourgeois conditions look like a *beau idéal* to them.” So had an Italian Marxist, Antonio Gramsci, and a British socialist, H.G. Wells, who had both argued that America's unique origins had produced a distinctive value system and unusual politics.

Lovestone was purged, but his argument still has force: America is exceptional partly because it is peculiar. As usual, de Tocqueville had thought about both meanings of exceptionalism before anyone else. In his book “Democracy in America”, he described not only what is particular to democracy, especially the way in which it changes how people think and act (what he calls “the quiet action of society upon itself”). He also described what was, and is, particular to America: its size, the institutions it had inherited from England, its decentralised administration.

These two versions of American exceptionalism have more in common than might appear at first sight. Both suggest that the experience of America is open to others. The idea of America-as-model implies that other countries can come to be more like America, though American differences may still persist over time. The idea that America is intrinsically different is also consistent with the notion that outsiders can become American, but they must go there to do it and become citizens—hence America's extraordinary capacity to assimilate immigrants.

There are three points to grasp from this gallop through the history of American exceptionalism. First, it is, as Mr Lipset put it, a double-edged sword. It helps explain the best and the worst about the country: its business innovation and its economic inequality; its populist democracy and its low voter turn-out; its high spending on education and its deplorable rates of infant mortality and teenage pregnancy. Exceptionalism is often used either as a boast or as a condemnation—though in reality it is neither.

Second, the two strands help explain why exceptionalism is divisive within America itself. Most Americans are doubtless proud of the “exemplary” qualities of their country. But the non-exemplary, more peculiar features do not always command universal approval.

Third, there should be nothing surprising, or necessarily disturbing, in a revival of exceptionalism. America has almost always been seen as different. The question is: has anything changed recently?

Unparallel tracks

It is always risky to proclaim a break in a trend. Yet evidence is growing that, over the past decade or so, America has been changing in ways that do make it more different from its allies in Europe, and September 11th has increased this divergence.

Most of the previous half-century was a period of convergence. Between 1945 and about 1990, America and Europe seemed to be growing more like one another in almost every way that matters. Economically, Europe began the post-war period in ruins. According to Angus Maddison, an economic historian, in 1950 average incomes in western Europe were 54% of American ones. By the early 1990s, the ratio had passed 80%. Richer EU countries now boast a standard of living comparable to America's. Until the mid-1980s, America and Europe also both had stable populations, declining fertility rates and growing numbers of old people.

In the 1960s, America moved closer towards European levels of government spending through the Great Society programmes. This was the start of Medicaid for the poor and, later, increased regulation of industry through bodies like the Environmental Protection Agency.

With Watergate and the Vietnam war, America started to approach European levels of cynicism about government and military intervention abroad. In 1976, a sociologist, Daniel Bell, wrote a book whose title encapsulated the conventional wisdom of the time: “The End of American Exceptionalism”. Later changes seemed to prove him right. In the 1980s, European countries started to organise their economies on more American lines. Governments privatised and deregulated. Companies listed on the New York Stock Exchange, set up NASDAQ clones and started using share prices to measure a company's or manager's performance.

In politics, Margaret Thatcher and Ronald Reagan were both engaged in similar projects to shrink the size of the state. Bill Clinton (who was wildly popular in Europe) proclaimed himself a paid-up member of the largely European “third way”.

When communism collapsed, Mr Fukuyama hailed “The End of History”. Countries, he argued, would henceforth tend to become more alike, more democratic, more liberal, more globalised. There would be less exceptionalism, of the American or any other kind.

But things did not work out that way in foreign affairs, and other sorts of convergence may be coming to an end, too. The demographic differences are now startling. Around 1985, America's fertility rate bottomed out and began to rise again. It is now at almost two children per woman, just below the replacement level of 2.1, and looks set to rise further. Europe's fertility rate is below 1.4 and falling. Even China's is 1.8, and its birth rate is dropping fast.

At the moment, the EU's population is considerably larger than America's—380m against 280m—and will grow further with enlargement next year. China's is nearly four times as large as America's. But on current trends, by the middle of this century America's population could be 440m-550m, larger than the EU's even after enlargement, and nearly half China's, rather than a quarter.

America will also be noticeably younger then and ethnically more varied. At the moment, its median age is roughly the same as Europe's (36 against 38). By 2050, according to Bill Frey of the Brookings Institution, a think-tank, America's median age will still be around 36, but Europe's will have risen to 53 (and China's will be 44). In the 1990s, America took in the largest number of immigrants it had ever seen in one decade: 33m people now living in the country were born outside it, and Latinos have become the largest ethnic group. “America,” says Hania Zlotnik of the United Nations Population Division, “is the world's great demographic outlier.”

Then there is the technology gap. Each year, more patents are applied for in America than in the European Union. America has almost three times as many Nobel prize-winners than the next country (Britain), and spends more on research and development than any other country. On one measure of academic performance, over 90 of the world's top 100 universities are in America.

Europe and America have also been diverging economically, though one should be cautious about that. In the seven years from 1995 to 2001, real GDP rose by 3.3% a year in America but by only 2.5% a year in the European Union. The bursting of the stockmarket bubble and the subsequent recession reversed this pattern—in 2001, GDP growth was higher in Europe than America—but the gap opened up again as the economies recovered. On current estimates and forecasts, growth in America in the three years to 2004 will average 1.3 percentage points a year more than in the 12-country euro area. Some 60% of the world's economic growth since 1995 has come from America.

These relative economic gains may be reversed. It is hard to see how the country can sustain both its huge trade and budget deficits. On the other hand, its growth in the 1990s reflected a big improvement in productivity, which rose by over 2% a year in the 1990s. The number of hours worked also rose. In

1982, Europeans and Americans put in roughly the same number of hours each year. Now, Americans work a daunting 300 hours a year more.

These divergences began at different times and for different reasons. The demographic gap began to open up as long ago as the mid-1980s. Economies started to diverge in the mid-1990s. Even in the area most relevant to the terrorist attacks—foreign policy—the roots of transatlantic differences arguably go back to the fall of communism in 1989-91. September 11th did not create these tensions, but it dramatised some of them. The attacks took place at a time when America was governed by an administration already less engaged in Europe than any in recent history, and when almost all the other measures were, for the first time in 50 years, pointing in the same direction—away from Europe, as well as from much of the rest of the world.

If this pattern continues, America may be entering a period of even greater dominance in world affairs. That alone makes American exceptionalism of more than domestic importance. American power will be divisive abroad—but it will also bring conflict at home, because a significant portion of Americans does not believe that the era of convergence is over. When Howard Dean, a Democratic presidential candidate, said that “We won't always have the strongest military,” he was slapped down by his own party as well as by Republicans. But he touched a nerve. The next section will explain how exceptionalism divides America as well as defining it.

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Us versus us

Nov 6th 2003
From The Economist print edition

American values divide as well as define the country

THE new National Constitution Centre in Philadelphia stands three blocks from where the Declaration of Independence and the American constitution were adopted. Post-it notes are dotted around the museum for visitors to reply to questions such as “What does it mean to be an American?”“It means I have a responsibility and obligation to protect my freedom and that of my children,” runs one typical reply. Or: “It means to say when I disagree.” Or: “Sometimes it means unbridled capitalism.”

To a second question, “Should the ten commandments be displayed in public buildings?” the replies range from, “They are the foundational laws for the constitution” to, “We have the right to freedom *from* religion.” And to a third, “What makes you feel free?”, they include: “Our military forces willing to give their lives for mine”; “Not to have to think about it”; or simply, “USA rocks!”

American values are distinctive, but not uniformly so. Patriotism and religious faith are unusually strong. Americans stress personal responsibility rather than collective goals. Many are fairly conservative in their social opinions and are somewhat more likely than Europeans to disapprove of divorce, abortion and homosexuality. Yet people on both sides of the Atlantic find international terrorism and the spread of weapons of mass destruction equally worrying. And Americans are in some ways more open than Europeans—or were, until the terrorist attacks of 2001 made them less welcoming—in their greater approval of immigration and the value of “other cultures”. It is this particular combination of values, as much as strong patriotism or religiosity, that really makes America stand out.

Begin with an area of clear difference: attitudes to the role of government in a free market. People in almost every country surveyed by the Pew Research Centre in 2003 say they are better off in a free-market economy. But asked which is more important—that the government should guarantee no one is in need, or that it should not constrain the pursuit of personal goals—Europeans in both east and west come down roughly two-thirds/one-third in favour of a safety net, whereas Americans split two-thirds/one-third the other way.

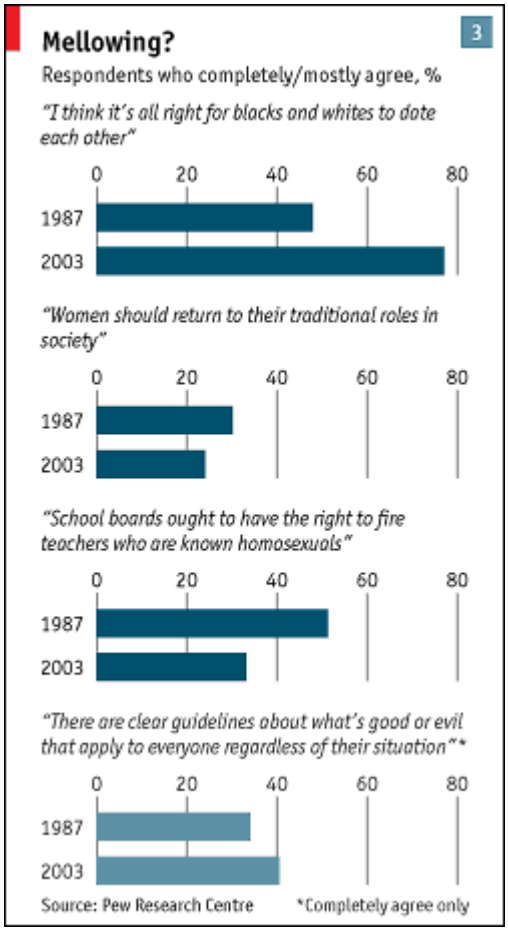
However, when asked, “Does the government control too much of your daily life? Is it usually inefficient and wasteful?”, two-thirds of respondents on both sides of the Atlantic say yes. So the differences seem to have less to do with the way that governments are viewed, and more to do with Americans' belief in the importance of individual effort. Pew's pollsters sought to measure this belief by asking people in 44 countries, “Do you agree or disagree that success is determined by forces outside your control?” In most countries, fewer than half thought that success was within their control. In only two did more than 60% consider success a matter of individual effort: Canada and, by the widest margin, the United States.

In other areas, American exceptionalism is less clear-cut. For example, nine out of ten Americans say they are very patriotic, according to Pew. But Indians, Nigerians and Turks are equally patriotic. Among wealthy nations, Americans are also the most likely to go to church and to say God is very important in their lives, but again Indians, Nigerians and Turks are more religious than Americans.

Lots of Americans like to buy products that shout, “I'm large. I'm loud. I'm ready for anything,” such as army assault vehicles lightly disguised as cars, or outdoor grills the size of small kitchens, or Arnold Schwarzenegger. David Brooks, a *New York Times* columnist, calls this “getting in touch with your inner longshoreman”. Yet at the same time Americans seem to be developing a more restrained side. They are just as likely as Europeans to say that people with AIDS should not be discriminated against. Support for the idea that “women should return to traditional roles in society” has fallen from just under a third in the late 1980s to about a fifth now, roughly the same as in Europe. Both Americans and Europeans overwhelmingly disagree that when jobs are scarce men should be given priority.

Americans are slightly less likely than Europeans to find

homosexuality socially acceptable, and less likely to support gay marriage, but tolerance of gays is on the increase (see chart 3). Americans also tend to be fairly positive about the contribution of immigrants to society, whereas in most of the rest of the industrial world more than half the population thinks immigrants are bad for their countries.



These differences and similarities are best understood as values arranged along two spectrums of opinion. One spectrum, says the World Values Survey of the University of Michigan (which invented the idea), measures "traditional values". The most important of these is patriotism; others concern religion and traditional family ties. Americans tend to be traditionalists. A remarkable 80% say they hold "old-fashioned values" about family and marriage. At the other end of this spectrum are "secular-rational" values, for whose adherents religion is a personal, optional matter, patriotism is not a big concern and children have their own lives to lead. Europeans tend to be secular-rationalists. On this spectrum, America is indeed exceptional.

The other spectrum measures "quality of life" attitudes. At one end of it are the values and opinions people hold when economic and physical insecurity dominates their lives, as often happens in poor countries. This makes them suspicious of outsiders, cautious about changing patterns of work and reluctant to engage in political activity. At the other end are values of self-expression involving the acceptance of a wide range of behaviour. On this score, Americans and Europeans are similar, because neither group is engaged in a struggle for survival any more.

But the two spectrums together suggest that there is a "values gap" within America itself too. In Europe, countries have become both more secular and more "self-expressive" as they have got richer. In America, this did not happen. That has profound implications.

E pluribus duo

In 1999, Gertrude Himmelfarb, a social historian, argued that America is becoming "One Nation, Two Cultures". One is religious, puritanical, family-centred and somewhat conformist. The other is tolerant, hedonistic, secular, predominantly single and celebrates multiculturalism. These value judgments are the best predictor of political affiliation, far better than wealth or income.

In the 2000 election, 63% of those who went to church more than once a week voted for George Bush; 61% of those who never went voted for Al Gore. About 70% of those who said abortion should always be available voted for Mr Gore; 74% of those who said it should always be illegal voted for Mr Bush. As Pete du Pont, a former governor of Delaware, pointed out, a map showing the sales and rentals of porn movies bore an eerie resemblance to the map of the 2000 election results.

> "It is not that men in democracies are naturally very convinced of the certainty of their opinions and very firm in their beliefs; they often have doubts that no one can resolve; but since nothing either pushes it powerfully or directs it, it oscillates within itself and does not move"
>
> de Tocqueville

America, it is said, can live together because Americans live apart. The two cultures occupy different worlds. Traditionalists are concentrated in a great L-shape on the map, the spine of the Rockies forming its vertical arm, its horizontal one cutting a swathe through the South. With a couple of exceptions, all these "red states" voted for Mr Bush in 2000.

The rest of the country is more secular. This includes the Pacific coast and the square outlined by the big L, consisting of the north-eastern and upper mid-western states. With a few exceptions, these "blue states" voted for Mr Gore in 2000.

Their differences are deeply entrenched. Traditionalists are heavily concentrated in smaller towns and

rural areas. Secularists dominate big cities. Southerners tend to be a bit more religious, a bit more socially conservative and more supportive of a strong military stance than the rest of the country. Intriguingly, black southerners are more conservative than blacks elsewhere, though less conservative than their white neighbours.

The political effect of these differences is increasing. For historical reasons (Republicans having been the anti-slavery party in the civil war), white southerners were part of the Democratic coalition, circumscribing for many years the political impact of southern conservatism. Now, as the region becomes more Republican, that conservatism is getting noisier.

In contrast, multiculturalism is deeply entrenched in blue states. The states with the highest levels of immigration of Latinos and Asians include New York, New Jersey, New Mexico and California—what Mr Frey calls America's new melting-pots. Mr Gore won all of them, except Texas and Florida. These were special cases: both had governors called Bush; both had seen the largest inflow from other parts of America of white immigrants, who tend to be more conservative.

The differences between the two Americas seem to be getting sharper. A new survey of American values by Pew finds greater social and sexual tolerance, yet also more strictness on matters of personal morality. The number of people saying they completely agree that there are clear and universal guidelines about good and evil has risen from one-third to two-fifths in the space of 15 years.

One of America's characteristic features is its sunny optimism, the sense that anything is possible. Yet there is an 18-point gap between the number of Democrats and Republicans who agree with the statement “I don't believe there are any real limits to growth in this country today.” Democrats are usually keener than Republicans to urge the administration to pay attention to domestic issues. This gap has widened from three points in 1997 to 16 points now. On America's role in the world, the importance of military strength and patriotism itself, the gap between the parties has never been wider.

So if there is a revival of exceptionalism—in the sense both of greater divergence from other countries, and of policies based on it—it will be controversial. Red states are likely to welcome it. Blue states probably will not.

But there are complicating factors. The red-blue split implies that two tribes are forming, with people within each of them thinking more or less alike. In reality, things are rarely that clear-cut. In his book “A California State of Mind”, published in 2002, Mark Baldassare of the Public Policy Institute in San Francisco showed that voters in that state do not fit the bifurcated pattern of the 2000 election. California is one of the most solidly Democratic (blue) states. Most voters call themselves socially liberal and environmentally friendly, which seem like “European” attributes. Yet in other ways California is as unEuropean as you can get, a place of swirling ethnicities that looks towards Latin America and Asia.

Californians wanted the large tax revenues the state had generated during the boom years of the 1990s to be spent on social programmes, rather than handed back in tax cuts—again, a European impulse. Yet, in flat contradiction, they did not want their state government to grow because they did not trust politicians to spend the money wisely—an exceptionalist, American characteristic.

Part of this muddle is doubtless specific to California. Yet there are mixed views and big contrasts between opinion and behaviour in many other places too. For example, Americans in heartland states express traditional views about family and personal morality especially strongly, yet the incidence of divorce, teenage pregnancy, births out of wedlock and murder is slightly higher there than elsewhere.

Land of the soccer moms

Among all the ways America is unusual, one of the least noticed but most important is that more than half the population lives in suburbs. In this, it is unique in the world: in most European countries, for example, over two-thirds of the population is classified as urban. American suburbia has changed radically in the past 20 years. It is no longer a homogeneous world of nuclear families, dormitory towns and middle-class whites. Now there are ethnic suburbs (most immigrants go straight there); office parks (90% of office space built in the 1990s was suburban); poor suburbs near towns; and rich ones on the outskirts. Some suburbs even try to recreate European towns: an intriguing counter-example to the general pattern of divergence.

Yet compared with the sharp differences between cities and rural areas, suburbs still show a residual

similarity of values. Those that matter most are family achievement and moderation. This is the land of soccer moms, SUVs, meticulously kept subdivisions, oboe practice for kids and school runs.

Such people make up a hefty share of the roughly 40% of Americans who describe themselves as politically moderate. They explain the softening of some of the sharp edges of American exceptionalism, such as declining support for the death penalty since the mid-1990s and greater acceptance of gays and inter-racial dating. Suburban moderation cuts across the bright line between red and blue states.

On this reading, the distribution of American opinion forms a bell shape. The traditionalists and the secularists are the two tails, which are getting fatter and more vocal. In the middle is a bulge of moderate opinion, indifferent to, or even repelled by, this contest. It is up to politicians to decide whether to appeal to the extremes or to the centre. But before delving into politics, stop to look at the most important of the “exceptional” qualities: religion and patriotism.

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Therapy of the masses

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Americans are becoming more religious, but not necessarily more censorious

SADDLEBACK church could exist only in America. On any Sunday, over 3,000 people from the suburbs of southern Los Angeles flock to the main Worship Centre, which looks less like a cathedral than an airport terminal. If you want to experience the rock bands, theatrical shows and powerpoint sermons in a traditional church, you can: they are piped into one by video link. Or you can watch the service on huge video screens while sipping a cappuccino in an outdoor café.

But in case you think this is religion lite, Rick Warren, the pastor, will quickly encourage you to join one of the thousands of smaller groups that are the real life of the church. Saddleback members will help you find a school, a friend, a job or God. There is a “Geeks for God” club of Cisco employees, and a mountain-bike club where they pray and pedal.

To Europeans, religion is the strangest and most disturbing feature of American exceptionalism. They worry that fundamentalists are hijacking the country. They find it extraordinary that three times as many Americans believe in the virgin birth as in evolution. They fear that America will go on a “crusade” (a term briefly used by Mr Bush himself) in the Muslim world or cut aid to poor countries lest it be used for birth control. The persistence of religion as a public force is all the more puzzling because it seems to run counter to historical trends. Like the philosophers of the Enlightenment, many Europeans argue that modernisation is the enemy of religion. As countries get richer, organised religion will decline. Secular Europe seems to fit that pattern. America does not.

In fact, points out Peter Berger, head of the Institute on Religion and World Affairs at Boston University, few developing countries have shown signs of religious decline as their standards of living have risen. It may be Europe that is the exception here, not America. There is no doubt, though, that America is the most religious rich country. Over 80% of Americans say they believe in God, and 39% describe themselves as born-again Christians. Furthermore, 58% of Americans think that unless you believe in God, you cannot be a moral person.

There is also some evidence that private belief is becoming more intense. The Pew Research Centre reported that the number of those who “agree strongly” with three articles of faith (belief in God, in judgment day and in the importance of prayer in daily life) rose by seven to ten points in 1965-2003. In the late 1980s, two-fifths of Protestants described themselves as “born again”; now the figure is over half.

The importance of religion in America goes well beyond personal belief. Back in the 1960s, Gallup polls found that 53% of Americans thought churches should not be involved in politics, and 22% thought members of the clergy should not even mention candidates for public office from the pulpit. By 1996, these numbers had reversed: 54% thought it was fine for churches to talk about political and social issues, and 20% thought even stump speeches were permissible in church.

AP

For God and Republicanism

These shifts in opinion have given a boost to one particular group of churches: evangelical Protestants. They embrace a variety of denominations, including Baptist, Confessional and Pentecostal churches, all of which stress individual salvation and the word of the Bible rather than sacraments or established doctrine. In 1987, they were the third-largest religious group in America, with a membership of 24% of the adult population; now they are the largest, with 30%. The percentage of Catholics has stayed stable, largely thanks to Latino immigrants, but established Protestant churches, such as Presbyterians, have declined sharply.

A marriage of church and politics

Evangelical Protestants bear out the European view that religion in America is politically active, socially conservative and overwhelmingly Republican. Almost two-thirds of committed evangelicals—the ones who attend church most frequently and say they hold strictly to the Bible—describe themselves as conservative, by far the largest proportion of any religious group. They are also more likely than other churchgoers to rate social and cultural issues as important, somewhat more likely to say homosexuality should be discouraged, and most likely to want to rein in the scope of government.

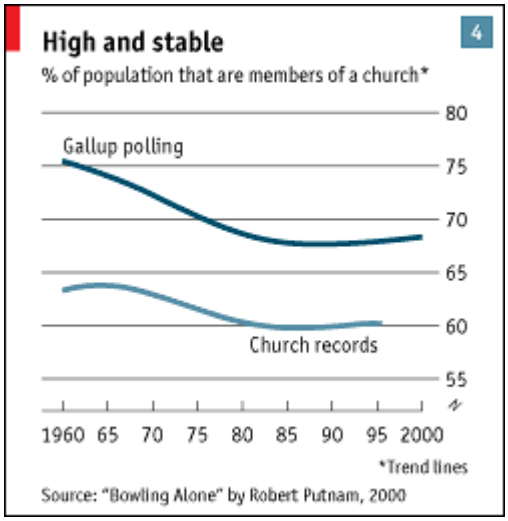
Over time, evangelicals have become more willing to engage in politics, too. White evangelical Protestants represent almost a third of registered voters now, up from slightly below a quarter in 1987. Their leaders have tried to unite the various evangelical churches as a political force, establishing the Moral Majority in 1979 and the Christian Coalition in 1989. Their comments speak for themselves. Franklin Graham (Billy's son) called Islam “a wicked religion”. The former president of the Southern Baptist Convention called the Prophet Muhammad “a demon-possessed pedophile”.

Such political activism, the growth of new churches and the increased intensity of belief has led some to argue that America may be in the early stages of a fourth Great Awakening, a period of religious fervour when the variety, vigour, size and public involvement of religious groups suddenly increases. Earlier awakenings occurred in the late colonial period, the 1820s and the late 19th century. Might the same thing be happening again?

The evidence seems to be against it. Church attendance has not been increasing, as a new awakening would suggest. The Gallup organisation found that it fell slowly in the 1960s and 1970s, stabilised in 1980 and has remained level since then, with about two-thirds of the population claiming membership of a church.

These findings are based on how often people say they go to church, something they tend to exaggerate. But a collection of records from the churches themselves, summarised by Harvard University's Robert Putnam, shows the same pattern (see chart 4). So do figures from the Association of Statisticians of American Religious Bodies, which show that in 2000 some 141m Americans—or half the population—were members of a church. That is a lot, but it falls well short of the four-fifths who believe in God as a private matter. And it is active churchgoing that makes

the difference between private belief and public consequences.



Even among fundamentalist Protestants, public influence is patchy. There was, for example, no huge turn-out of conservative Christians in the 1998 mid-term elections, even though the Lewinsky scandal infuriated religious voters. After President Bill Clinton's impeachment and acquittal, Paul Weyrich, a leader of the Moral Majority, wrote to the *Washington Post* to say that conservative Christians had "lost the culture wars"—hardly evidence of growing influence.

It is not even clear how important religion is in determining the political and social views of evangelical Protestants. The largest concentration of these churches is in the South, among whites. But white southerners held conservative views on homosexuality, government, defence and so on long before the Moral Majority was invented. It is just as likely that social conservatism has encouraged evangelical churches as the other way around.

The Pew study tried to disentangle the role of religion in determining churchgoers' views from other factors, and found that only in social and cultural attitudes (on matters like abortion and homosexuality) was religion alone a powerful factor. Even there, broader demographic factors were more important.

Don't believe a word of it

Lastly, although the number and membership of charismatic churches has certainly grown, there has been an offsetting increase in those who describe themselves as of no religion at all. Since 1960, the number of self-described secularists (atheists, agnostics and those not affiliated to any organised religion) has roughly doubled. According to a survey by the City University of New York (CUNY), 14% of Americans between 18 and 34 describe themselves as "secular" and a further 9% as "somewhat secular".

Secularists are more likely to live on the Pacific coast or in the north-east, in a city, have a college degree, be male, single, and either lean towards the Democrats or be politically independent. Committed evangelicals are more likely to live in the south, vote Republican, lack a college degree, live in towns or rural areas, and be female and married. In other words, America looks like two tribes, one religious and one secular.

But the really distinctive feature of American religion is the area in the middle. Most Americans do not become members of a church to sign up for a crusade or to sit in judgment on miserable sinners. For them, churchgoing is a matter of personal belief, not conservative activism. Their religion is mild.

> *"On my arrival in the United States, it was the religious aspect of the country that first struck my eye. As I prolonged my stay, I perceived the great political consequences that flowed from these new facts"*
>
> de Tocqueville

In 1965, according to Gallup, half of respondents said the most important purpose of their church was to teach people to live better lives. Since then, the share has grown to almost three-quarters. This is the biggest change in America's religious life in the past 40 years.

Alan Wolfe, of the Boisi Institute for the Study of Religion at Boston College, points out that American religion is exceptional in two senses: not only are Americans more religious than Europeans, but they have no national church. Thanks to the separation of church and state, the country has nothing comparable to, say, the Catholic churches of Italy and Spain, or the Church of England. Americans are members of sects.

The two kinds of religious exceptionalism are connected. Rather as in the economic sphere competing private companies tend to produce wealth and activity, whereas monopoly firms have the opposite effect, so in the religious sphere competing sects generate a ferment of activity and increased levels of belief, whereas state churches produce indifference.

This has implications for the quality of American belief. Churches come and go with astonishing speed. The statisticians of American religious bodies tracked 187 denominations (and there were many more)

between 1990 and 2000; in that time 37 disappeared and 54 new ones appeared on the scene. Adherents and pastors, too, are constantly on the move. One study found that half the pastors of so-called “mega-churches” (suburban ones like Saddleback, with Sunday congregations of 2,000 or more) have moved from another denomination. According to the CUNY study, 16% of American adults—33m people—say they have switched denominations. For some churches the share of new adherents was startlingly high. In 2001, 30% of Pentecostalists had joined from another church and 19% had left; among Presbyterians, 24% came in and 25% went out.

Such churning limits doctrinal purism, which might otherwise be expected in a new church. Instead, churches try to attract floating believers—what Wade Clark Roof, a sociologist, calls “a generation of seekers”. According to Mr Wolfe, American churches are therapeutic, not judgmental. They stress “soft” qualities such as guidance and mutual help, not “hard” ones like sin and damnation.

This means that the charismatic and evangelical churches are not typical of the whole of religious life in America. If the pattern of public opinion in general is bell-shaped, that of religious belief has the profile of a Volkswagen Beetle: a bump of evangelical Protestants at the front, a bigger bulge of uncensorious congregations in the middle and a stubby secular tail. That must temper the notion that religion is running amok in America, or that it is causing America to run amok in the world.

At Saddleback church, Rick Warren preaches that abortion is wrong. On a recent Sunday, anti-abortion groups lobbied for their cause as parishioners left church. Mr Warren told them not to return. He agreed with their views, but members of his church, and newcomers, might not. He did not want abortion to get between members and the more important matter of their relationship with God.

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Home of the brave

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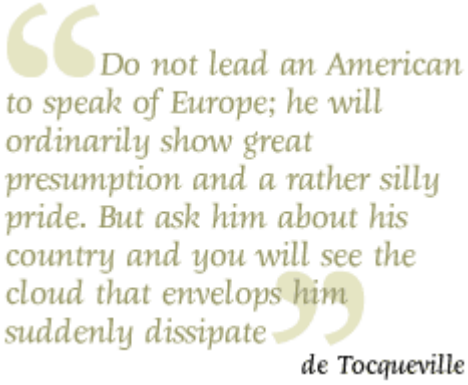
American patriotism is different from the European variety

HERMANIO BERMANIS holds up his right hand to take the oath of American citizenship. Half a million do the same every year, but this ceremony is unusual. It is being held in the Walter Reed military hospital, in the presence of two cabinet members, because Army Specialist Bermanis, who was born in Micronesia, had both legs and his left arm blown off on active service in Iraq. His right hand is all he has to hold up.



The ceremony gave expression to a powerful sentiment: American patriotism. As de Tocqueville noted long ago, "The inhabitants of the United States speak much of their love for their native country." Seymour Martin Lipset begins his book on American exceptionalism with a remark unusual for an academic: "I write as a proud American." In a new survey of American values by the Pew Research Centre, fully 91% of Americans say they are very patriotic.

Europeans have long been bothered by this feature of American life. De Tocqueville again: "There is nothing more annoying...than this irritable patriotism of the Americans." But since September 11th the Europeans have become even more disturbed. They associate patriotism with militarism, intolerance and ethnic strife. No wonder they consider it an alarming quality in the world's most powerful country.

Yet European and American patriotism are different. Patriotic Europeans take pride in a nation, a tract of land or a language they are born into. You cannot become un-French. In contrast, patriotic Americans have a dual loyalty: both to their country and to the ideas it embodies. "He loved his country," said Lincoln of Henry Clay, "partly because it was his own country, but mostly because it was a free country." As the English writer G.K. Chesterton said in 1922, America is the only country based on a creed, enshrined in its constitution and declaration of independence. People become American by adopting the creed, regardless of their own place of birth, parentage or language. And you can become un-American—by rejecting the creed.

This dual character softens American patriotism. "My country, right or wrong" may be an American phrase (it comes from a toast by Stephen Decatur, an American naval hero), but only one American in two agrees with it, according to the Pew survey. Only two years after September 11th, fewer than half the respondents supported the statement that "We should try to get even with any country that tries to take advantage of the United States."

However, there is one trend in American opinion that should give pause for thought. Republicans have long been slightly more likely than Democrats to say they are intensely patriotic, but the gap has widened dramatically, and is now by far the largest on record. In 2003, 71% of Republicans said they were intensely patriotic, compared with only 48% of Democrats. An even larger gap has opened up in responses to the proposition that "The best way to ensure peace is through military strength." The number of Democrats who agreed with that sentiment slumped from 55% in 2002 to 44% this year.

The intensity gap may well reflect differing attitudes to the war in Iraq, the domestic effects of which will presumably fade with time. But the gap may also be an early indication of a more lasting split: over the passion of loyalty, and what counts as "real" patriotism.

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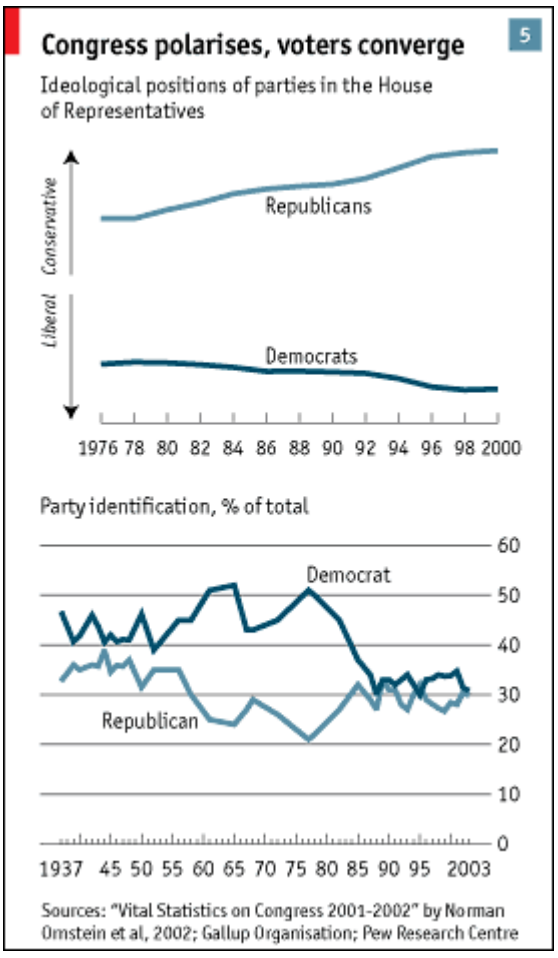
Politics as warfare

Nov 6th 2003
From The Economist print edition

American politics has become more partisan, and nastier

THE 2000 election was the third dead-heat in a row. In votes for the House of Representatives, the widest margin of victory between 1996 and 2000 was a mere 1.3 percentage points. Essentially, every presidential and House election came out at a dead heat, 49:49.

The 2002 mid-term elections brought a change. In House races, Republicans won 51% of the popular vote, Democrats 46%. As Michael Barone, a political journalist, points out, statistically this margin was not significant, but politically it had a big impact. Republicans captured the Senate, the first time the president's party had ever won the upper chamber at this point in the electoral cycle. They gained 141 seats in statehouses, giving Republicans a majority of state legislators for the first time since 1952. The party kept its majority among state governors. In Washington, it controlled both houses of Congress and the presidency. The victory was highly unusual: most mid-term elections punish the incumbent party, especially at times of economic weakness. But does it presage a bigger electoral breakthrough, the beginning of the end of the 50-50 nation?



It might. Ever since the New Deal, there have been more registered Democrats than Republicans. In the four years before September 11th, according to the Pew Research Centre, Democrats held a small advantage in party identification (34% of registered voters described themselves as Democrats, 28% as Republicans). But immediately after the terrorist attacks Democratic affiliation dropped sharply, and in the past two years the parties have been roughly balanced. There was a further rise in Republican identification after the Iraq war earlier this year, so at the moment Republicans have an advantage in

party identification for only the second time in 75 years (see chart 5). September 11th seems to have been a turning point.

But long-term trends were helping Republicans anyway. The defection of the South—America's most populous region—broke up the old Democratic coalition. In 2002, Republicans won the South by an even larger margin than in their landslide victory of 1994. The rise of an investor class (half of Americans own shares) benefits the party, because middle-class shareholders tend to back Republican causes such as privatising Social Security, the federal pensions system.

These long-term trends are reinforced by significant temporary gains. The campaign-finance reform of 2002 shifted the balance of advantage towards the party that raises more cash from individuals, which currently means the Republicans. Sophisticated computer software has turned redistricting—the ability of the dominant party in state assemblies to gerrymander district boundaries—from an art into a science. In 2002, Republicans controlled the legislatures of three big states—Michigan, Ohio and Pennsylvania. By amazing coincidence, in Gore-majority districts where Republicans drew new boundaries, their party won 11 more seats than in 2000.

Breaking the deadlock

So it is not hard to see why Republican strategists think their party may be on the verge of breaking the 50-50 deadlock. Yet, on balance, the evidence is still against the idea that there has been a fundamental shift in electoral politics. The 2002 elections did not break the mould. For incumbents to gain as much as Republicans did last year is unusual but not unprecedented. Democrats also won against the odds in 1998. And as Gary Jacobson of the University of California at San Diego points out, the Republicans' success in 2002 can be largely explained by special factors.

At that point, Mr Bush's personal ratings—the highest of any president—ran well ahead of his ratings on the economy. Usually the two do not differ much. That implies that but for the war on terrorism, which buoyed up his overall popularity, Mr Bush would not have been able to shield Republican candidates from economic discontent. This is unlikely to apply in 2004. Mr Bush's popularity also scared off the Democrats, who fielded a particularly feeble bunch of challengers. They have a few more creditable ones now.

Usually, incumbent parties lose seats in mid-term elections because congressmen squeak into marginal seats on the coat-tails of a successful president. But Mr Bush had no coat-tails in 2000, so in 2002 Republicans had fewer vulnerable seats to lose. Add in the special impact of redistricting, and most of the Republican success in 2002 can be explained by the party's skills in squeezing the most out of a largely balanced electorate rather than by a fundamental shift in its favour. There was little evidence that voters were less polarised in 2002 than they had been in 1996-2000.

Opposites repel

In one sense, that does not matter. If Mr Bush hopes a permanent majority is within his grasp, he may well dash ahead with an ambitious agenda. But he may also do that if he fears the partisan divide is too deep to be overcome. If so, his party's current political dominance would be just a window of opportunity, and he should take advantage of it before it closes.

But the persistence of a deep electoral division effects how his policies—or any president's policies—are received and carried out. It tempts Mr Bush (or any Republican) to push for more extreme policies, and any Democrat to push for the opposite extreme. The divide also encourages partisan behaviour among voters. This increasing polarisation could turn out to be the most important trend in American politics today.

George Wallace, a former governor of Alabama, used to say there wasn't a dime's worth of difference between the parties. But polarisation is growing in Congress. Republicans are now twice as likely to toe the party line in the House and Senate as they were in 1975. Democrats are about one-and a half times as likely. Ad hoc “coalitions of the willing” have become much rarer in domestic politics.

Partisanship is rife in congressional committees. Heads of committees used at least to pay lip service to the minority party when proposing legislation, but since Newt Gingrich's takeover in 1994, partisan

control has by and large been the rule. Committee chairmen now routinely squelch attempts by Democrats to influence legislation, leading to petty squabbling and ill temper.

Partisanship is also evident in redistricting, which has increased the number of safe seats towards North Korean levels. In 2004, only 30-40 congressional seats are likely to be truly competitive—a quarter of the number in the 1990s. Since 1964, the share of House incumbents re-elected with over 60% of the vote has risen from 58% to 77%. This makes congressmen's politics more extreme.

If your district is rock-solid, you have little reason to fear that voters will kick you out for moving too far from their opinions. The main threat comes from party activists, who tend to be more extreme in their views and can propose a challenger in primary elections. So the dangers of drifting too far to the middle outweigh those of drifting too far to the extremes. Partisan redistricting marginalises centrist voters, aligns the views of candidates more closely with extremists on each side and radicalises politics.

Away from Capitol Hill, partisanship has also grown in lobbying. Both parties have tried to control lobbyists, the fourth branch of American government, but Republicans have got better at it than Democrats. Every Tuesday, lobbyists troop to the office of Rick Santorum, the leader of the Senate Republican conference, to talk about hiring Republicans—an ex-chief of staff here, a pollster there. Republicans place their protégés in lobbying firms. The firms raise money for Republican candidates and help get them elected. Legislators then place their protégés in the firms. And so it goes on.

Above all, polarisation has grown in the electorate, evidenced by a sharp decline in split-ticket voting (choosing a president from one party and a congressional representative from another). In 1972, 44% of congressmen and women represented a different party from the one whose presidential candidate carried their district. In 2000, the share was under 20%.

The truly independent voter seems to be disappearing. That may seem curious, because those who call themselves independents easily outnumber self-identified Democrats or Republicans. Yet most so-called independents vote consistently one way or the other. The White House reckons that less than one-third of independent voters actually switched parties in the past three elections.

With the decline of swing voters, there seems less and less point in running presidential campaigns to appeal to the slim middle. Instead, elections have become contests to mobilise core supporters. The 2000 and 2002 elections were both turn-out races.

The upshot is that politics has become warfare. What matters most is the size and bloodthirstiness of your troops, not winning over neutrals. Politicians take the first opportunity to reach for weapons of mass destruction, such as Bill Clinton's impeachment or the recall of Governor Gray Davis in California. It is no longer possible to agree to disagree. Your enemies must be “Stupid White Men”, guilty of “Treason”, who live in a world of “Lies and the Lying Liars Who Tell Them” (to quote the titles of three of this year's political bestsellers).

> *“Democratic governments can become violent and even cruel at certain moments of great excitement and peril; but these crises will be rare and transient”*
>
> de Tocqueville

Increased partisanship has implications for the nature of America's public debate, the country's decentralised political tradition and Mr Bush himself. Politics as warfare is rooted in debates about fundamental issues. Over the past few years, the Republicans have become the “exceptionalist” party by celebrating America's traditional values and stressing qualities that make the country intrinsically different. Call that conservative exceptionalism.

In contrast, Democrats are divided. Mainstream Democrats, including members of the Clinton administration, go for the other type of exceptionalism, the city-on-a-hill variety—though Mr Bush claims to espouse that, too. Others—notably Howard Dean and the left—seem to regard exceptionalism of any kind as a bad thing. Still others embrace what might be called liberal exceptionalism, celebrating America's egalitarian, anti-aristocratic heritage. In different ways, all these distinctions are based on values or principles.

Steamrollering the enemy

In contrast, winning at all costs is not, or not necessarily. Take the 2002 Senate election in Georgia, one of the nastiest campaigns of recent memory. The Democrat, Max Cleland, who had lost three limbs in

Vietnam, was demonised as soft on Osama bin Laden and Saddam Hussein. The culture of victory may supersede arguments about values and substance because conquest becomes imperative.

America's political system is decentralised, with proud, distinctive traditions at state level, and national parties that used to be loose coalitions of diverse groups which banded together to win power. Partisanship, on the other hand, is a centralising force that encourages uniformity. America's distinctive political traditions have been tested before, and survived. In the early part of the 20th century, a time of just as much partisanship in voting and in politicians' behaviour, America did not move towards the party-dominated political systems familiar in Europe. But there was less ideological coherence then, and no television or national media groups to reinforce a consistent message.

Now localism is weaker. And, at least on the Republican side, it faces a national organisation more disciplined, more firmly under the control of the White House, more fiercely loyal to the president—and more prepared to throw its weight around. In the 2002 elections, the White House intervened to persuade local parties in Minnesota, South Dakota and Georgia to change their senatorial candidate. The White House's choice won in two of the three states against the odds.

This does not mean that party structures themselves have strengthened. In fact, in terms of raising money they are weaker than they have been throughout most of American history. But the parties are ideologically more distinct. And within the parties, politicians are more partisan and less diverse in their backgrounds.

As for Mr Bush himself, he has proved a polarising president, better at solidifying the Republican base than at extending it. Two years after September 2001, his own party's approval of him stood at over 80%, but Democratic approval had fallen below 20%. This stunning gap marks Mr Bush as even more divisive than Bill Clinton, who suffered just as much from Republicans' hostility as Mr Bush does from Democrats'. But whereas Mr Clinton's policies were more popular than he was, with Mr Bush it is the other way around. His ratings on the economy and tax cuts are lower than his overall approval levels. The next section explains why.

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Doctor Jekyll and Mr Bush

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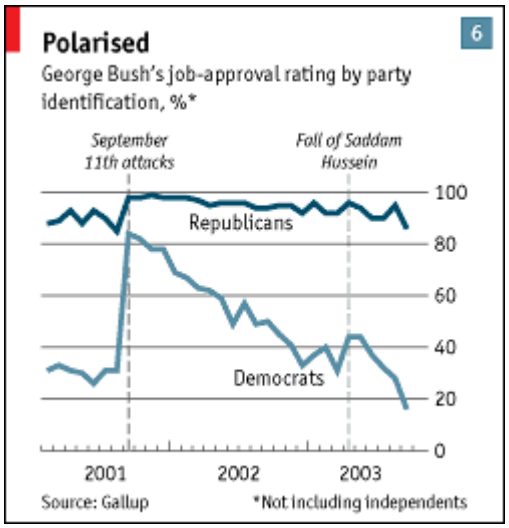
How “exceptional” is George Bush?

FOR a moment, it seemed that the attacks of September 11th 2001 had created a new opportunity for political leadership. The mayor of New York, Rudolph Giuliani, transformed himself overnight from an effective, if cantankerous, administrator into a symbol of the resilient city. Mr Bush might have emulated him. Americans rallied round the president after the terrorist attacks. His speeches at the time expressed the mood of national determination. His stature as commander-in-chief grew. Yet Mr Bush made no real attempt to unify the nation behind a domestic cause. He made no call for sacrifice, as Franklin Roosevelt had done after Pearl Harbour. Asked what people could do for the nation at a time of crisis, Mr Bush replied: Go back to normal. Go shopping.

This could perhaps be regarded as a failure of the president's imagination. But there is another reason. President Bush says he wants to promote America's universal values. In that sense, he is a city-on-the-hill exceptionalist. He also claimed during the 2000 election campaign that he would be “a uniter, not a divider”. But his political personality is too complicated for either claim to be wholly convincing.

There are two George Bushes. One is ideological, divisive, willing to tear up the rule book and push strongly conservative policies. This is the Bush loved by Republicans, loathed by Democrats (see chart 6). The other is more incremental and sometimes more bipartisan. Yet even this Bush, who might appeal to the middle, is also surprisingly audacious. His audacity causes wariness among voters who are not strongly inclined for or against him.



Big-government conservatism

Foreign policy shows Mr Bush in rule-book-destroying mode. He has rejected the cornerstone of cold-war diplomacy, the doctrine of containment, and is unwilling to treat states as legitimate merely because they are internationally recognised or stable. This puts him at odds not only with European, but with cold-war traditions of American diplomacy.

In some areas of domestic policy, Mr Bush has been almost as far-reaching. The best example is tax. As Bill Galston of the University of Maryland puts it, “Ronald Reagan thought government was the problem. George Bush thinks tax is the problem.” Mr Bush is in fact more radical, or more determined, than his Republican predecessor. Mr Reagan cut taxes in his first year but increased them later in the face of widening budget deficits. Mr Bush cut them in each of his first three years, despite the prospect, by the third year, of deficits as far as the eye can see.

This year, total federal revenues stood at 17% of GDP, the lowest level since 1959, which was long before Medicare, Medicaid, federal education programmes and today's defence build-up. Mr Bush's tax policy is consistent with the “exceptionalist” view that, in a twist on Thomas Jefferson's words, “the government that governs best, taxes least.” It has heightened differences in the tax burden between the two sides of the Atlantic.

What about the other George Bush? This is the one who created the biggest new bureaucracy since Harry Truman: the Department of Homeland Security. This is the Bush who has pushed the powers of the federal government into education, hitherto a state preserve, by requiring annual testing of students and raising federal spending to supervise those tests. It is the one who has allowed the Justice Department to detain suspected terrorists for longer periods and with less judicial review.

This is the Bush who is trying to set up a national energy policy to reduce dependence on foreign oil; who slapped protectionist barriers on steel; who signed a farm bill costing $180 billion over ten years; who set up a White House office to promote marriage (surely the last thing a conservative government should be poking its nose into). And this is the one urging Congress to expand state health care for the elderly to cover some of the costs of prescription drugs—an action President Clinton's Medicare adviser says would be “the biggest expansion of government health benefits since the Great Society.”

In all, the Bush administration in its first three years increased government spending by 21%. It will rise even higher if the president wins a second term and fulfils his promise to reform Social Security, because of the huge transition costs. In contrast, during the Clinton administration government spending fell as a share of GDP. “Appalling,” says Ed Crane, the head of the libertarian Cato Institute which campaigns for small government.

This rise in the scope and cost of government seems to contradict the idea that American exceptionalism is increasing on Mr Bush's watch. Clearly, he is not an exceptionalist in the small-government, Reagan mould. He does not believe government is part of the problem. This qualifies, but does not rebut, the notion that exceptionalism is growing. Still less does it mean Mr Bush is making America's government more “European”.

The combination of large tax cuts and increased spending has turned a budget surplus of 2.4% ofGDP in 2000 into a 3.5% deficit in 2003—one of the fastest fiscal deteriorations in history. With more spending pressure, the proposed expansion of Medicare and the desire to make “temporary” tax cuts permanent, the deficit is likely to rise yet further, to around 5% of GDP by 2004-05, near the record post-war deficit set in 1983. This would almost certainly be unsustainable, so Mr Bush's economic policy must be counted a work in progress at best, a shambles at worst.

And even though Mr Bush is no small-government exceptionalist, he is no European-style welfare statist either. As Jonathan Rauch has argued in *National Journal*, a magazine for Washington insiders, the thread running through his non-defence government expansion is increased choice rather than increased government. Higher spending on school tests enables parents to assess the quality of schools and choose between them. Health-care reform as originally proposed is supposed to let private health providers compete with Medicare. Social Security reform, if it happens, would allow people to save for their own retirement through individual accounts that would compete with the existing pay-as-you-go system.

These two Bushes coexist uneasily. Neither is likely to dominate the other, because of the way the president runs his administration. Mr Bush has an MBA, and it shows. He sets overall goals but lets his lieutenants work out how to meet them and goes with the policy that best pleases him. Different policies, therefore, reflect different strands of Republicanism. Sometimes neo-conservatives have the president's ear; sometimes traditional realists do. Sometimes corporate barons seem uppermost; at other times, supply-siders. This fluidity makes for a dizzy, sometimes invigorating, often incoherent mixture.

Summing up

The conclusion must be that Mr Bush's policies are somewhat exceptionalist, increasing his appeal to the red states and reducing it in blue ones. At the same time, the combination of radical ambition and uncertain outcomes leaves voters in the middle nervously suspending judgment.

The president's radical policies and the growth of partisanship have increased the importance of extreme opinion and marginalised the centre. After September 11th, Mr Bush appealed strongly to traditional American patriotism. His tax policies appealed to small-government conservatism. Both implicitly encouraged exceptionalism. All this lessened the moderating influence of the middle.

Exceptionalism and partisanship reinforce one another. Exceptionalism exists anyway; partisanship increases its importance. Partisan politics is growing anyway; exceptionalism gives it character and spirit. By exaggerating existing divisions, Mr Bush seems to have hardened his country's battle lines. And they seem to have hardened him.

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The last, best hope of earth?

Nov 6th 2003
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American exceptionalism is a fact and a fate. It does not have to be a problem

IS AMERICAN exceptionalism something to worry about? Many people will say yes. Their concerns are understandable but overblown.

An increased sense of national distinctiveness in any big power must worry the small fry who live in its shadow. America's alliance with Europe kept millions of people free and wealthy during the cold war. To the extent that American assertiveness threatens that alliance, it also hurts something that has done immense good.

But the world has lived with American differences for two centuries. The suspicions surrounding their current revival are due in part to foreigners' shock at the end of the somewhat artificial closeness engendered by the cold war, and in part to the war in Iraq. As other countries begin to adjust to changes in America, and as profound disagreement over Iraq fades into milder wrangling about the occupation, alliances will be rebuilt. That is already beginning to happen.

Some of the features that make America different cause problems within the country because they are divisive. True, qualities such as Americans' optimism and their stress on individual responsibility encourage unity. But other features are more partisan, including religiosity, small-government conservatism and perhaps intense patriotism. America is already deeply divided between traditional and secular cultures. The increase of partisanship, the culture of political victory at all costs, Mr Bush's own policies and his enormous appeal to traditional America all risk making matters worse.

Yet the contest of values is a source of strength as well as weakness for America. New opinions are always bubbling up; elite views are always being tested. This is messy but not acquiescent. De Tocqueville argued that the most insidious threat to any democracy was apathy, which conducts people “by a longer, more secret, but surer path towards servitude.” America's culture wars help to bar that secret path.

And for everyone other than Americans themselves, the country's divisions should be less worrying. Doctrines of American exceptionalism tend to be self-regulating. Mr Bush stresses them and meets opposition from the left; a President Howard Dean would no doubt downplay them and meet opposition from the right.

In addition, there are two external constraints upon American exceptionalism. One is the sheer difficulty of engagement abroad. As problems pile up in Iraq, people at home will become ever less likely to support the idea that America has a unique mission in the world.

> “America. . . seems marked out by the will of Heaven to sway the destinies of half the globe”
>
> de Tocqueville

The other constraint is economic. At the moment, the world economy depends too heavily on American growth, and America depends too much on borrowing abroad. At some point, global economic imbalances will be corrected and, if things go well, growth in the rest of the world will begin to catch up with America's, making its economic performance less divergent from its partners'. Meanwhile, America's budget problems will constrain President Bush. In 2000, surpluses enabled him to make expansive, nation-changing promises. As the red ink flows, he is likely to be forced into small-scale, incremental promises for his second term.

In the end, though, American exceptionalism worries outsiders because it seems both to represent and encourage a more dangerous world. Doctrines of exceptionalism seem to fit with the notion that the post-cold-war world is a battleground of warring cultures and hostile ideologies, the “clash of civilisations”. In

such a world, the anti-exceptionalist tenets of the European Union—that countries should play down their differences—seem to offer a safe haven. Exceptionalists reply that the world's conflicts are there for all to see, and that American power is likely to promote not chaos, but safety.

No one knows which of these ideas will be more influential in the world in future: America's top-dog exceptionalism or the EU's basket of squealing puppies. But for America itself, the choice has already been made. America is a nation apart in both senses: different from others, and divided within itself.

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As well as those mentioned in the text, the following sources were used in the writing of this survey (listed by subject).

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Chinese entrepreneurs

On their way back

Nov 6th 2003 | BEIJING AND SHANGHAI
From The Economist print edition

The overseas Chinese are returning to become entrepreneurs in the motherland

Get article background

WHEN Hu Jintao, China's president, recently threw open the doors of the Great Hall of the People in Beijing it was not to host fellow Communist Party officials, dutiful soldiers or loyal peasants. His purpose was to address 4,000 returning Chinese who have studied and worked overseas but who have since moved back. If this was meant as a symbol—and nobody practises symbolism as artfully as the Chinese—it was a timely one. Today's rapidly growing China is drawing on the talents of its foreign-educated and western-trained elite more than ever to “realise the great rejuvenation of our nation”, as Mr Hu put it. Many of those returning see China as a land of boundless opportunity.

This is a remarkable transformation. When China reopened its borders in 1979, few of those who gained a passport thought of ever handing it back and turning into turtles—the Chinese nickname for those who come back (as turtles do to the beach where they were born). But there were a few exceptions, including the most famous turtle of them all: Deng Xiaoping, who spent five formative years in France picking up an education and a fondness for croissants before returning to fight for communism with Chairman Mao.

Now the numbers are shifting, although China still suffers from a brain drain. Nearly 600,000 students have left in the past 25 years and only around 160,000 of them have come back, according to government statistics. But the number of those who return is rising. In 2002, it reached almost 18,000, double the number of two years ago. That might look tiny compared with China's vast population, but the economic and intellectual contribution from returning Chinese is great.

In a country where less than 1% of the people are enrolled in higher education, 90% of returning Chinese hold a master's degree or a doctorate from abroad. “China has the hardware, but not the software. China needs knowledge. China's biggest challenge is human resources,” says Henry Wang, a businessman and a Canadian-educated professor who is also a senior member of the Western Returned Scholars Association (whose 90th anniversary Mr Hu was celebrating).

Going it alone

While some of that “software” goes into academia and government, most returnees go into business—

either joining the staff of foreign multinationals or state-owned enterprises, or setting up their own business. In Beijing alone, there are now 3,300 enterprises started by returners, including some of the country's largest private companies, such as UTStarcom, a maker of telecoms-networking equipment, and Sohu, an internet portal.

It is not hard to see why the numbers returning are increasing so fast. China's 7-8% annual growth and steady march towards capitalism has helped it to rival America as one of the best places to seek success and wealth. Wu Ying, the founder of UTStarcom and a former researcher at America's Bell Labs, points to a 100-fold increase in his group's revenues in seven years. “UTStarcom's phenomenal growth shows that the market potential in China is limitless,” he boasts. His counterpart at Sohu, Charles Zhang, a physics major from the Massachusetts Institute of Technology, predicts: “If we look back after 100 years at today, we may find this period similar to the Renaissance in Europe or the Meiji Restoration in Japan.”

China's leaders have been astute at harnessing such boundless optimism. Government officials wine and dine potential returners, and more than 70 business parks have been set up exclusively for their use. One of these, Zhongguancun near Beijing, is known as China's Silicon Valley. Those who return can receive tax breaks, cheap office space, start-up loans and advice on how to navigate the local bureaucracy. Jan Yang, the 41-year-old founder of Greenphile Bioindustrial Solutions, which makes enzymes to recycle paper, works at a similar park in Hangzhou in Zhejiang province. When he returned two years ago, he recalls: “Everyone called me doctor, political people wanted to see me. I felt important.” Unlike most Chinese, he is not required to renew his visa and passport every few months, and earlier this year he even got a meeting with the prime minister, Wen Jiabao.

The perks and a shot at becoming wealthy are not the whole story. Cultural and family ties are a draw, along with a desire to give something back to the motherland. Sometimes this is combined with a suspicion that they may have hit a glass ceiling in their adopted country. “I was already on top of American society for immigrants,” says Mr Yang. “I could have played lots of golf if I had stayed in America. But I wanted to use my technology to offer China something important.”

The homecomings do produce problems. Sohu's Mr Zhang, one of China's richest entrepreneurs, made a plea at a conference in Shanghai recently for Chinese to be less jealous of the wealthy. Those returning are often perceived as arrogant. Local colleagues can resent the returners' higher pay, or attempts to impose western management techniques. Avrom Goldberg, regional president of Cendant Mobility, a human-resources firm, says that multinationals have started turning down job applications from turtles who have been away for more than two years because they no longer know enough about how China works. Culturally, the turtles can find it hard to reintegrate into society. Many have left their families and children behind. Nevertheless, in other ways the transition has become easier than in the past. “Unlike in the 1980s, we now have English TV and radio. You can buy a car and an apartment in Beijing, and there are western bars,” points out Mr Wang of the Scholars' Association.

In their rush to start new ventures, some of the returners' business plans look risky. Charles Yang, working from a shabby office in the Tsinghua Science Park near Beijing, has founded a company called Landsnice to make concrete from the slag waste of iron and steel production. Touting his product as environmentally friendly, cheap and strong, Mr Wang is trying to buy out government-owned cement firms, convinced he can make buildings in time for the 2008 Beijing Olympics.

Not surprisingly, many banks are reluctant to lend to some of China's newly minted entrepreneurs. But this belies the more basic challenge of creating a proper venture-capital industry. Henry Liu, a Silicon Valley exile who has set up SageTech, a promising electronics-security company at Zhongguancun, complains that most investment firms are state-owned with politicians as shareholders and are “afraid of risk”. Having raised just a quarter of the $2m he needs, he is having to rein in his ambitions. With just six months of cash left, Mr Liu is considering returning to California to obtain more funding. Even so, a China confident enough successfully to launch a man into space should have little trouble in attracting turtles to its shores.

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Chinese brands

The big picture

Nov 6th 2003 | HONG KONG
From The Economist print edition

TCL wants to become China's Samsung

PERHAPS it was predestined. When France's Thomson announced on November 3rd that it was in effect shedding its TV-manufacturing business to a partner called TCL, few people had heard of the other firm. Was it a surprise? Not to TCL's chairman Li Dongsheng. His western name is Thomson.

For the French company, this is a neat exit from a business in which it lost around €60m ($56m) last year. Thomson gets a 33% stake in the joint venture with TCL International—the mainland group's Hong Kong-listed subsidiary.

For TCL, however, the deal is bigger still. With revenues in excess of €3 billion and producing more than 18m TV and DVD sets a year, the joint venture is being trumpeted as the industry's next global leader. So watch out Sony, Philips, Toshiba and Samsung.

Mr Li believes he is creating something new: “the first Chinese consumer multinational with significant presence in all major markets”. And he promises confidently that the joint venture will make a profit in its first year.

This is not all hubris. The deal marries TCL's low costs with Thomson's brands, distribution and research in Europe and America. And TCL, founded only in 1981 by a group of ambitious entrepreneurs in Guangdong—the province that is China's manufacturing heartland—is aggressively commercial even though it is controlled by a city government. It survived a bruising consolidation process among Chinese TV makers to emerge as one of the two leading groups, with an 18% market share.

After attempts at diversification—a common affliction among Chinese businessmen—into white goods, computers and mobile phones (with mixed results), the Thomson deal suggests a laudable focus on the core business. Comparing TCL to Haier, China's leading home-appliance maker which is also trying to build a global brand, Arthur Kroeber, managing editor of the *China Economic Quarterly*, says: “Buying an existing brand and a sales force makes more sense. Haier is trying to build a global name from scratch, but most Chinese companies don't understand branding.”

Whether this deal will turn *TCL* into another Samsung is doubtful. Both Thomson in Europe and its RCA brand in America are rather tired names “on the sort of TVs you find in drab motel rooms,” says one banker. TCL will need fat margins to match Samsung or Sony at brand building and marketing. And while China's vast pool of cheap labour gives it a massive cost advantage, it is not inherently as efficient as, say, many Taiwanese contract-manufacturers, or as dedicated to process engineering as its Japanese rivals.

Even so, this deal is a warning. TCL may not turn into quite the multinational Mr Li envisions, at least not immediately. But as more mainland companies start to foster ambitions beyond their home market, it will not take long for China's first global champion to emerge.

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American telecoms

Business at snail speed

Nov 6th 2003 | NEW YORK
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WorldCom's emergence from bankruptcy has dismayed rivals

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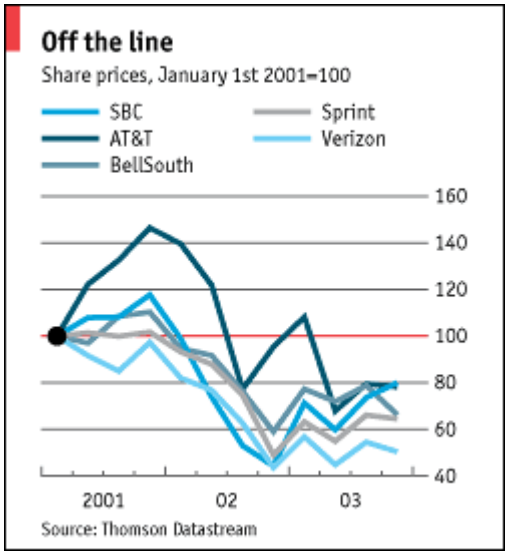

LESS than a year and a half after a massive accounting fraud forced WorldCom into bankruptcy, the company is about to emerge from the protection of the courts as the renamed MCI. Yet hopes that the restructuring of America's second-biggest long-distance telephone company might lift the industry's flagging spirits were soon dashed. Even as the bankruptcy-court judge approved MCI's restructuring plan on October 31st, the firm's competitors gave warning of fresh horrors to come. Scrubbed clean of its debts, they claim, MCI will undercut more heavily-indebted rivals, plunging the entire industry into a terrifying "death spiral". After wrecking telecoms once with its fairytale pricing and false claims about growth, is MCI is about to commit the same crime again?

Having lobbied energetically to get the government to shut MCI down entirely, the likes of AT&T and Verizon are understandably upset that the firm will now emerge with a strong balance sheet, a stable business with sales of about $25 billion, and most of its pre-bankruptcy assets intact. Yet MCI is not quite as strong as it looks. Along with its debts of $5.8 billion, it will also have the much trickier job of managing its poorly defined but potentially huge legal liabilities.

The firm's bankruptcy-court filings give some idea of the complexity of this job. Its most recent operating report notes securities litigation against the company in 24 states and the federal courts, civil suits against the firm's former directors and pension-fund trustees, separate class-action suits alleging fraudulently misleading public statements, and call-routing investigations by the United States attorney's office and the firm's regulator.

MCI's competitors, moreover, will no doubt continue to be more than happy to help with some of these inquiries. Michael Capellas, the former computer-industry executive hired to run MCI, may find he has little time or energy left to direct at fending off his competitors in the marketplace as well.

Despite all of MCI's travails, however, the prospects for America's other big long-distance carriers, AT&T and Sprint, are not much brighter. All three firms own and operate the internet's "backbone"—the big, technologically advanced trunk roads that run between important nodes in the network. Having built too much backbone in the boom of the late 1990s, they now find their problems compounded by their networks' fibre-optic technology. Unexpectedly, this technology seems to improve even more rapidly than the performance of the hyperkinetic computer-chip industry. A single strand of optical fibre is soon likely to be able to accommodate over 1,000 different channels. Long after telecoms firms stopped digging up the roads, backbone capacity continues to explode.

AP

Demand, meanwhile, trundles along at the sedate pace set by America's four "Baby Bells", the firms which own the ageing copper telephone wires connecting the fiber-optic backbone to millions of homes and businesses. This low-capacity copper chokes demand for the sort of applications, like streaming video, for which the trunk roads were built. As they upgrade their copper with new digital technology, the Baby Bells thus control the pace with which demand grows—and the preferred speed appears to be

slow. Death spiral? Maybe. But the industry's convulsions have little to do with the relative amounts of debt which the likes of MCI or AT&T carry on their balance sheets.

Mr Capellas is pinning his hopes on the same strategy that is meant to be rescuing AT&T: escape slumping prices by offering big-business customers extra services on top. With those bets yet to pay off, however, the industry appears to be drifting, with little enthusiasm, towards a merger of the Baby Bells with the long-distance operators. Although talks between AT&T and BellSouth broke down last month after the two companies failed to agree on price, Mr Capellas may nevertheless find himself encouraged to fix his legal problems and clean up MCI for a sale to Verizon or SBC, the two biggest Baby Bells. That is likely to extinguish any hope that America's telecoms industry can evolve at the fibre-optic speed which WorldCom once promised its shareholders. But the snail should get there in the end, and may even follow a less erratic course.

They're back

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Fashion

Gucci coochie coup

Nov 6th 2003
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PPR's efforts to take control of Gucci have caused trouble

FASHION changes; it goes with the territory. Only last month, Domenico De Sole and Tom Ford were beaming with delight at the ecstatic reception given to Gucci's autumn-winter collection, and confident about an upturn in the luxury business. Then suddenly, on November 4th, Gucci announced that its golden boys were leaving. Their departure from one of the world's largest luxury-goods firms will leave a big hole.

Mr De Sole will quit his job as chief executive and Mr Ford will leave his post as Gucci's creative director in April next year, despite “intensive efforts” to reach an agreement over their new contracts of employment with Pinault-Printemps-Redoute (PPR), a French retailing group and Gucci's main shareholder.

Both men, it appears, were reluctant to cede to PPR's wishes for greater management control over Gucci, an Italian handbag maker which they rescued from near-bankruptcy and turned into a collection of luxury brands. Their future remuneration packages undoubtedly also played a part, not least because share options are now as crucial to fashion as hemlines.

Mr De Sole and Mr Ford would have been emboldened in their demands because Gucci's share price has recently traded in New York at slightly above $85.52. This is in effect its floor—the price at which, until March, PPR is obliged under the terms of an option to buy the 30% or so of Gucci shares that it does not own. When investors know they can sell their shares at a fixed price to PPR, why flog them for much less—even though the stars have quit the show? If Gucci's share price stays just below the guaranteed price, PPR seems likely to have to fork out some $2.5 billion to buy out Gucci's minority shareholders. This is why PPR's own share price took more of a battering (down by almost 5% in Paris on news of the departures).

Yet François Pinault, the French tycoon who controls PPR, may have decided that this was the less risky course. With little management control from its majority shareholder, Gucci had become the tail that was wagging the dog. It was Mr De Sole and Mr Ford who spent $1 billion in 1999 buying Yves Saint Laurent—which, like many of Gucci's other brands, is still losing money.

Nevertheless, the two men will be a hard act to follow, not least because together they had managed to bridge the often-troubled divide between the constraints of hard-nosed businessmen and the freedom demanded by creative talent. Mr De Sole, 59, is an Italian who studied law in America, and Mr Ford, 42, is a Texan who worked his way up through the design world from New York to Milan, where he joined Gucci in 1990. It was while they were weaving their magic on Gucci that PPR was invited in 1999 to act as a “white knight” and buy a substantial stake in order to protect the Italian company from a hostile takeover bid by its arch-rival, LVMH, the world's biggest luxury group.

There is no doubt that Mr De Sole and Mr Ford have revitalised Gucci, not least because there has been a revival in the market for luxury goods. Yves Saint Laurent, it is true, was widely thought to have been irretrievably damaged by a sloppy licensing policy. But Mr De Sole was confident he could restore its exclusivity, and he predicted a return to profitability by 2005. He also hoped to reap rewards from Gucci's majority stakes in the companies of Stella McCartney and Alexander McQueen, two talented and young British designers.

The search for successors will be carried out by a committee that will be led by Serge Weinberg, PPR's chief executive. It is possible that Mr Ford's role as chief designer for both Gucci and Yves Saint Laurent will be split. Whoever gets the jobs will have “a large degree of autonomy,” promises Mr Weinberg.

Perhaps. But it is not just replacements for Mr De Sole and Mr Ford that Mr Weinberg has to worry about. There is also a question whether the teams who worked for both men will want to work for their successors. If PPR gets Gucci's succession wrong, the company may produce more temper tantrums than profits.

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The beauty business

Skin deep

Nov 6th 2003
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Doctors' brands are spreading into the skincare business

WILD salmon and blueberries may sound like something out of the Atkins diet, but they are on another doctor's orders. “The Acne Prescription” is a new book by Nicholas Perricone, a Connecticut dermatologist, which outlines his notions of keeping skin healthy through consumption of protein, essential fatty acids and anti-oxidants found in such grizzly-bear fare. Dr Perricone has already written two other best-selling books which explain his approach to staving off wrinkles, and his company, N.V. Perricone, M.D. Cosmeceuticals, sells many other skin-care products to complement the regimen.

Dr Perricone is one of a handful of dermatologists—mainly American—who are turning their clinical experience into lucrative products and firms, backed by their own names and medical credentials. Among them is Howard Murad, a pharmacist-dermatologist who launched his own skin-care line in 1989, and whose products now sell in 26 countries. Dr Murad, too, has a new book out expounding his “water principle” of skin health, involving his prescription of dietary supplements, skin treatments and “emotional self-care”.

Billions of wrinkles

This is part of a wider trend in skin care towards “cosmeceuticals”—cosmetic products, such as cleansers and moisturisers, which promise to improve more than merely superficial appearances. Americans bought $2.6 billion worth of cosmeceuticals last year, according to Datamonitor, a research firm, and more rapid growth is likely. Sales of dermatologist brands are soaring, although they are now no more than $100m a year—sold mainly through direct marketing or upmarket retailers.

Doctors and scientists have usually worked only behind the scenes in cosmetic companies. Clinique, a popular beauty brand created by Estée Lauder, was developed by Norman Orentreich, a dermatologist, in 1968. In those days, says Dr Orentreich, doctors simply could not advertise. If they did, they would lose their medical licences. In America, at least, times have changed. A number of skin-care lines, among them Prescriptives (also owned by Estée Lauder) and Clearasil, now use dermatologists to advertise their benefits. This lends both authority and personality to their claims.

Doctors who create their own brands can now happily front them as well. Drs Perricone and Murad have been busy on the chat-show circuit preaching their gospel of skin health. Katie Rodan and Kathy Fields, two San Francisco dermatologists, are the youthful, attractive faces of their own brand, Rodan & Fields, and have appeared in TV infomercials demonstrating their best-selling anti-acne product, Pro-activ. But both still have busy private practices; Dr Rodan believes it is crucial to stay in the trenches and treat patients in order to identify important skin problems and come up with new treatments.

Whether doctors' products actually do more for skin than conventional brands is hard to say. Regulators still do not know what to make of cosmeceuticals, and there are, as yet, no firm rules on how much testing a firm needs to do to justify its pitch. Many ingredients and approaches first used by dermatologist brands, such as Murad, are now finding their way into products by giants such as Olay and Avon. But the key difference is that the dermatologists are selling “skin systems”—organised regimens of various products and practices to protect the skin—rather than a single jar of hope.

In the mid-1990s, Drs Rodan and Fields found this a hard sell when Neutrogena declined to buy Proactiv because of its kit-based approach. In July, however, Estée Lauder acquired the latest product lines of Rodan & Fields and has started selling their kits. Shashi Batra of Sephora, a swanky cosmetics retailer, has seen this trend before. Ten years ago, specialist make-up artist lines, such as M.A.C, won customers

from established cosmetics firms before being acquired by the likes of Estée Lauder. They came to the market with great ideas and transformed it, and he expects dermatologist brands to do the same.

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Patents

Inventive ideas

Nov 6th 2003 | CAMBRIDGE, MASSACHUSETTS
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Reforming America's patent system

“THE value of an idea lies in the using of it,” Thomas Edison is said to have remarked. The same is true of ideas on how to reform America's patent system. The Federal Trade Commission (FTC) has issued a series of recommendations to improve the quality of patents by, among other things, providing better procedures by which people can challenge the validity of patents and stiffening the legal test the courts should use to determine whether the ideas contained in patents truly qualify as new, as they are required to.

There are growing concerns that the current process of examining, awarding and challenging patents—essentially, government-granted temporary monopolies—impedes progress as much as it protects inventors. Part of the problem is that the nature of intellectual property has changed, but the processes used by America's Patent Office are unable to keep pace.

The number of applications grew roughly 6% a year in the 1990s, inundating the examiners (though growth stalled when the economy did in 2000). Last year, 355,000 applications were filed, and 190,000 patents awarded. There is a backlog of half-a-million applications, with decision times of up to five years for technology-related patents. It is not unusual for a biotech firm to submit an application on a CD-ROM that entails thousands of pages of documents. And the problem has global repercussions; almost half of all patents issued in America go to foreign firms.

As a result of the quantity and complexity, the quality of patents is dubious. According to M-CAM, an intellectual-property consultancy in Charlottesville, Virginia, as many as 30% may share one or more claims with other patents, which throws into question their legitimacy, and so their value.

Although many experts think this estimate too high, they agree that the number of overlapping or duplicate patents is a serious problem. Making matters worse, once a patent is awarded it is extremely difficult to revoke, which is what the FTC's main proposals are trying to overcome.

Another remedy is—unsurprisingly—to increase the Patent Office's funding. But this is contentious. Congress has diverted some of the revenue the office collects from fees, totalling over $660m, to other federal programmes. The Patent Office's problems have reached such a point that pending legislation to increase fees by between 15% to 25%, and provide the entire sum directly to the office, is widely supported by large patent-holders.

Moreover, the abundance of patents with ambiguous worth has escalated into another area: tax fraud. The number of patents donated to universities and other charitable organisations is growing substantially, but in some cases their real worth is far less than is claimed in tax deductions. America's tax inspectors are now on the case. The Senate is also considering legislation to close this form of tax avoidance. Unless halted, the problem is estimated to mean a loss of $4 billion in tax receipts over the next ten years.

The FTC'S recommendations may place too much emphasis on overturning bad patents already awarded, and so shift too much of the burden to the courts, rather than do more to prevent poor awards in the first place, which is the Patent Office's job. Still, the FTC's reforms may make firms think twice before filing still more bad patents.

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Open-source software

Now it's Novell

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Linux breaks another window

Get article background

“NO, THIS absolutely isn't about Microsoft,” says Alan Nugent, the technology boss of Novell, a software company that announced on November 4th that it would buy SuSE Linux, a German distributor of the Linux open-source operating system, for $210m. “This is all about Microsoft,” says Ted Schadler, an analyst at Forrester Research, a technology consultancy.

Whether software companies care to admit it or not, few things in their industry these days are not about Microsoft in one way or another. In this instance, however, the connection is rather obvious. Novell once dominated the market for operating systems used by back-office server computers. Then, a decade ago, Microsoft entered its space and assaulted the firm. Novell has since struggled through a succession of bosses and business models, but never really found its next big thing.

During that time, however, a rival universe to Microsoft started expanding. This is the movement for free software, whose code can be downloaded by anybody and is written and refined by a community of hobbyists. Chief among these open-source programmes is Linux, now a real alternative to Microsoft Windows for server computers (and one that even runs on a few aficionados' desktop computers). Most companies that opt for Linux get it from distributors that also offer training and support. The two biggest of these are Red Hat, a firm in North Carolina, and SuSE, in Nuremburg.

Novell spotted the opportunity of hooking up with the movement this year, when it bought Ximian, a distributor of open-source software for the desktop. That acquisition alone was not going to make Microsoft nervous. But the new combination of Novell, Ximian and SuSE, offering a complete “stack” of software from the server to the client, could pack a punch. That, certainly, is the idea.

The link-up might also help the open-source community to deal with another distraction. Earlier this year, an obscure little company called SCO, which had bought the rights to UNIX, an operating system that dates back to the 1970s and from which Linux derives, started claiming, rather out of the blue, that Linux violates its property. It filed a suit against IBM, Linux's biggest corporate supporter, and threatened to sue Linux users.

IBM has sued right back (and agreed to buy a $50m stake in Novell as part of the deal with SUSE), and users show little sign of slowing their adoption of Linux. Oracle, HP and other giants are also backing Linux. Novell's vote of confidence, however, holds special clout: it happened to be the seller of the UNIX rights to SCO, and so knows a thing or two about them. Increasingly, every big technology power is learning to love Linux. Except, of course, you-know-who.

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Face value

Like father, like son

Nov 6th 2003
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Investors are angry that James Murdoch got the top job at BSkyB

Reuters

FOR James Murdoch, his first day as chief executive of BSkyB this week cannot have been pleasant. He was obliged to spend it justifying himself in front of powerful financial institutions, many of whom deplore the fact that one of the top jobs in European media has gone straight to Rupert Murdoch's younger son. James will have made a special effort to placate Fidelity, which last month masterminded the ousting of Michael Green from his role as chairman of ITV, Britain's main terrestrial commercial broadcaster. The activists will probably not be able to mete out the same treatment to the young Murdoch, since his father controls 35.4% of BskyB, Europe's biggest satellite broadcaster. But they will express their anger loudly at the firm's annual general meeting on November 14th.

Rupert is BSkyB's chairman as well as, through News Corp, its biggest shareholder. Even so, the owners of the rest of the company doubted that he would dare to appoint James, who is only 30, to replace Tony Ball, BSkyB's successful and experienced former boss. Rupert has never before gone as far as to force a family member into the top job at a separately listed part of News Corp. Spencer Stuart, an executive-search firm, was brought in to produce a list of candidates for the job. But that was a fig leaf. The company's nomination committee rejected the headhunters' candidates and recommended only James. Investors' views, clearly, matter less than Rupert's desire to promote his children.

People who are not beholden to News Corp do describe James as a gifted businessman. After dropping out of Harvard and starting a hip-hop music label, he proved his worth to his father by turning Star TV, a pan-Asian satellite-television business, from loss to profit. Shareholders do not have anything against him in particular, barring his youth and his lack of experience of Britain's TV industry. What they fear is that Rupert will try to use BSkyB's cash for the good of News Corp in ways that do not benefit them. His son, they conclude, will have little inclination or ability to fight for their interests.

Rupert has some form on this. In his purchase of 34% of Hughes Electronics, which owns DirecTV, a satellite broadcaster, News Corp's stake will be transferred to Fox Entertainment Group, a listed News Corp subsidiary, saddling Fox with $4.5 billion of debt and the related interest expenses. It was Rupert who insisted on BSkyB's $1.5 billion investment in Germany's KirchPayTV in 1999, reportedly against the wishes of Mr Ball. Kirch went bankrupt in 2002, and News Corp itself nearly went bust in 1990 under a weight of debt.

James is trying hard to reassure investors. He says he wants to expand BSkyB in Britain and Ireland and that there are no plans to invest elsewhere. Shareholders will be pleased to hear that the company will pay dividends for the first time since 1998.

As well as investors, James will need to woo BSkyB's current management team, three of whom put themselves forward as candidates for the chief executive's job. Dawn Airey, the head of programming and advertising for BSkyB's channels, for one, is widely thought to be unhappy. She may desert for ITV once its creation from the merger of Granada and Carlton is completed early next year.

Betting on dad

One reason, no doubt, why Rupert feels he can roll over smaller shareholders with impunity is that plenty of investors, especially American ones, are willing to put their faith in his skills and vision as a media entrepreneur. To invest in a News Corp company, says Lawrence Haverty, a managing director at State Street Research in Boston, “you have to be comfortable with Rupert,” otherwise there's no point. “Grow up”, is his advice to British investors who complain about James's appointment and corporate governance problems at BSkyB.

From the point of view of a News Corp investor, the interesting issue is how rapidly James is overtaking his older brother Lachlan, who as deputy chief operating officer of News Corp looked, until recently, to be the heir-apparent. Now, though, people close to News Corp say that James is the favourite and the one most like his father. Lachlan does his job as head of the unprofitable *New York Post* newspaper and the company's television stations to please his father, they say, but he is not much interested in business. The way the two sons have to compete with each other, one executive says, is unfortunate. It could bode ill for News Corp once the 72-year-old Rupert is gone.

Because BSkyB's shareholding is wide and fragmented—the biggest single holding, excluding News Corp's, is Legal & General's 3%—it is unlikely that fund managers will be able to muster the votes to do anything drastic at the AGM. If enough of them got together, however, they could vote James off the board, since he is up for re-election. That would make his position as chief executive awkward, to say the least. Investors will make a big effort to boost the independence of BSkyB's board; out of 12 non-executives, says the National Association of Pension Funds, only six will be independent after one steps down at the AGM. The association and its allies will aim their heaviest fire at Lord St John of Fawsley, the senior independent director who they believe failed to stand up for them on James's appointment.

Now James has to work out what to do with BSkyB and all its cash—with the chairman, as he calls his father, looking over his shoulder. An important decision will be whether to stick to the strategy of getting existing subscribers to spend more, or whether to go downmarket and expand the subscriber base, possibly at the expense of revenues per customer. In shaping the company's future, he says, “I work for BSkyB's shareholders and they are my only concern.” That is an admirable sentiment, and it may even be genuine. Investors will be watching closely to see whether his father lets him stick to it.

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Mutual funds

Perils in the savings pool

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Scandal is tainting one of the most successful forms of saving ever invented

ONE in every three Americans owns shares in a mutual fund. Sold as a low-cost way for the investor-in-the-street to own a stake in a portfolio of securities, the funds have grown at a phenomenal rate over the past decade (see chart 1). But a still-unfolding series of scandals suggests that beneath the industry's calm and trusted surface may lurk practices quite as unsavoury as any of those revealed last year at Wall Street's big investment banks, or the year before at the likes of Enron.

Because Americans trust mutual funds so much, some fear that this could do more damage to American capitalism than any of the earlier scandals. Wall Street worries that it is yet another reason for the general public to be cynical about financial markets. John Thain, the chief operating officer of Goldman Sachs, a big investment bank, warns that what has appeared so far may be only the tip of an iceberg.

The scandals first came to light this summer after Eliot Spitzer, New York's zealous attorney-general, turned his attention to the mutual funds following his high-profile investigation last year of the unresolved conflicts of interest inside investment banks. But even he could not have foreseen the extent of the mutual funds' abuse of their investors that has come to light since he and William Galvin, the state of Massachusetts' securities regulator, kicked off with an investigation into the mutual-fund sales practices of Morgan Stanley, an investment bank, on July 14th. Since then, the Spitzer probe has thrown up allegations of fraud and misdeeds that threaten to undermine and transform the whole industry.

Rolling heads

Since September 3rd, when Mr Spitzer charged Canary Capital, a hedge fund, with illegal mutual-fund trading, hardly a day has passed without the emergence of new allegations of funds cheating their clients. The allegations have come from the funds' state regulators and (rather less forcefully) from the Securities and Exchange Commission (SEC), whose investment-management division is the mutual funds' primary regulator.

On October 28th, the SEC and the state of Massachusetts charged Putnam Investments, America's fifth-largest mutual fund (with $272 billion under management), and two of its investment managers with civil fraud for allowing investors to buy and sell mutual-fund shares very rapidly, a practice known as “market timing”. Mutual funds are designed essentially as long-term investments. A rapid turnover of their portfolio forces them to remain more liquid than they would otherwise be and hurts their long-term

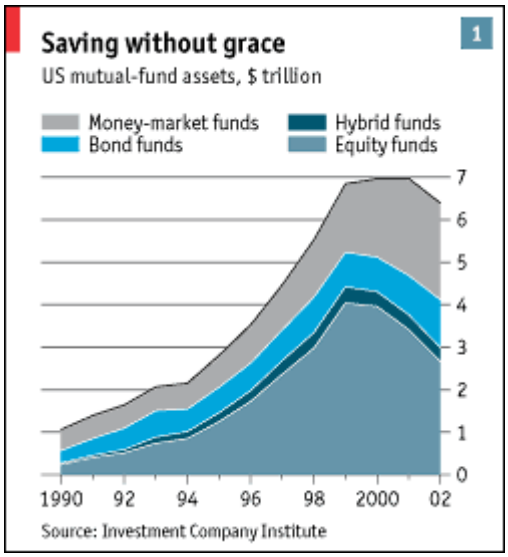
investors.

On Monday this week, the head of Putnam, Lawrence Lasser, was forced to resign. The following day, the state of Massachusetts filed charges of fraud against five former employees of Prudential Securities' Boston office, also for allegedly improper market timing. Boston is home to several of the industry's biggest players.

On October 30th, Mr Spitzer's investigators said they were preparing a complaint against Richard Strong, the chairman and founder of Strong Mutual Funds, a firm of mutual funds based in Menomonee Falls, Wisconsin. Mr Strong allegedly engaged personally in improper trading activities and, two days later, resigned as chairman of the firm.

Staff have also been fired from the mutual-fund operations of firms such as Citigroup, Merrill Lynch and Morgan Stanley. Fund managers stand accused of putting their own interests first, thereby violating their fiduciary duty to act in the best interest of the funds' investors. Each case that surfaces further tarnishes the once squeaky-clean image of an industry that had gradually clawed back its reputation for propriety after a spate of scandals during the Depression.

To some extent the industry's troubles are a result of its extraordinary success. In 1949, mutual funds managed assets of $2 billion. By 1990 that figure had risen to $1 trillion. Since then, the industry's assets have mushroomed to $7 trillion, organised into about 8,300 different mutual funds belonging to some 95m investors. In 1949, equities accounted for 90% of the industry's assets. Today, only half of the mutual funds' money is invested in equities (see chart 1), but those equities account for 23% of all publicly traded stock. The other half of the funds' assets is parked in bonds and money-market instruments.



Until the 1990s, most funds were cautious investors looking for long-term gains. Galvanised, however, by the enthusiasm of savers for the capital markets, they grew rapidly and became much more aggressive in their investment strategy. Some of them specialised in risky new-economy stocks. “Amassing assets under management became the industry's primary goal, and our focus shifted from stewardship to salesmanship,” says John Bogle, the founder of Vanguard, the second-biggest mutual fund. A long-standing critic of his industry's murky practices, Mr Bogle founded the only big fund that is mutually owned. The rest, despite their name, are legally constituted as companies.

As trillions of dollars poured into the funds, their managers became more cavalier with their costs. Mr Bogle reckons that last year the industry's operating costs amounted to a staggering $123 billion. The pay of the funds' top managers rose to match those of top corporate CEOs. Mr Lasser, who has earned more than $100m over the past five years, may, according to one analyst, be entitled to a further $89m on his departure from Putnam.

To meet these costs the funds charge their investors fees. These include management fees, administrative fees, custodian and transfer fees, shareholder-service fees, directors' fees, legal and audit fees, interest costs and so-called 12b-1 fees—named after an SEC regulation that created them. Some funds forgo some of these, so their fees vary considerably. For instance, not all charge a 12b-1 fee, which pays for marketing and advertising to attract new investors to the fund. And not all demand a shareholder-service fee, which goes to pay the bank, brokerage firm or insurer for servicing the investor's account.

On top of these fees come charges for buying and redeeming shares in a mutual fund. And these vary widely too. Instead of a charge on purchase, a so-called “front-end load”, some funds impose a “back-end load”, a charge on investors when they redeem their shares early. However, about 45% of all equity funds have neither a front-end nor a back-end load. But they do charge fees for services and marketing.

A typical charge is 4.5-5.5% of the investment, though discounts are given for larger sums. On November 3rd, however, the National Association of Securities Dealers, owner of the NASDAQ stock exchange, revealed that mutual-fund investors had not received an estimated $86m of volume discounts to which they were entitled during 2001 and 2002. Regulators are planning to bring enforcement action

against two dozen brokers for this overcharging.

Imperfect timing

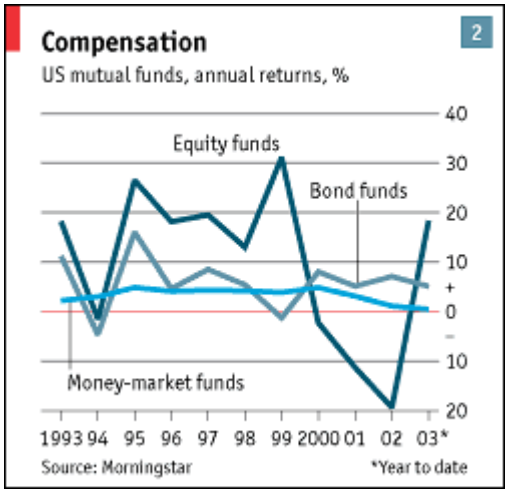
When the bull market turned sour, the funds' managers were tempted to find new ways to entice and hold on to customers. One way was to allow favoured investors to indulge in the two practices that are at the heart of the current scandals: late trading and market timing.

These practices depend on the industry's antiquated way of pricing its products. When the first mutual fund, the Massachusetts Investors Trust, was established in 1924, it calculated how much it was worth (its net asset value—NAV) once a day based on the stockmarket's closing prices. It announced its NAV at the beginning of the next trading day, and deals were then done for the rest of that day on the basis of that price. But this meant investors were inevitably trading at out-of-date prices.

In 1968, the SEC introduced the current system of pricing in which a fund's price is fixed at 4pm New York time, the closing time of the New York Stock Exchange. Orders placed after that time have to wait for the next day's 4pm fixing to know the price at which they will be executed. Meanwhile, of course, the underlying portfolio of securities owned by the fund can have fluctuated sharply in value.

Allowing favoured investors to trade after 4pm, but at the previous 4pm's fixing, is called late trading and is illegal. Allowing investors to buy and sell funds rapidly to take advantage of short-term fluctuations in the funds' underlying portfolio (market timing) is not illegal unless a fund says it prohibits it. And most of them do.

Late trading is hard to detect. Financial intermediaries—such as brokerage firms, insurers or administrators of 401(k) retirement plans, all of which invest heavily in mutual funds on behalf of their clients—may legitimately receive investors' orders before 4pm, but not pass them on to the funds' managers until after the 4pm watershed. The managers then (fairly) execute these orders at that day's prices. But the distinction between this arrangement and late trading is a fine one.



In testimony to Congress on November 3rd, Stephen Cutler, the SEC's enforcement director, said that more than 80% of all fund managers currently allow intermediaries to send orders in after the market closes at 4pm. The intermediaries' orders have supposedly been received before 4pm, but the system has given corrupt brokers the opportunity to hide illegal late trades in batches of otherwise legitimate orders. The SEC reckons that more than a quarter of top brokerage firms and 10% of mutual-fund groups may have knowingly allowed the illegal practice of late trading.

In addition, Mr Cutler said that almost a third of intermediaries “indicate that they assisted market-timers in some way”. Fund managers disclose their funds' holdings to the public twice a year. Yet almost a third of them admit that they reveal their holdings to selected clients more frequently, giving them a clear advantage over other clients.

Imperfect governance

The industry's structure is heavily influenced by the Investment Company Act (ICA) of 1940 which determines the funds' legal form. The ICA says explicitly that mutual funds must be organised, operated and managed in the interests of their shareholders. A fund's sponsor (usually a bank, an insurer or a specialist mutual-fund company like Fidelity or Vanguard) is required to register each new fund as a separate company with the SEC and with a state's securities division. The registration document is the prospectus that informs the general public about the fund's sponsor, its board of directors, its investment objectives and its fees. Each fund has its own board, whose members are in effect paid by the fund's investors to watch over their interests.

The funds do not manage themselves; rather, they hire external money-management companies which

have their own separate sets of shareholders and loyalties. A fund's board is not only supposed to oversee its investments, it is also expected to approve the money managers' pay and to decide on the renewal (or otherwise) of their contract.

And herein lies a main cause of the industry's troubles. The boards of mutual funds are rarely, if ever, truly independent. They tend to rubber-stamp their money managers' activities and their contracts without question. Fidelity and other big sponsors often provide as many as two-thirds of the members of their funds' boards, and the chief executive of the sponsor is frequently the chairman of the board also. Most directors end up overseeing far too many funds to do a half-decent job at any of them.

The ICA demands that funds be set up legally as corporations, but in several key respects they do not behave like corporations. Their reports to their shareholders are far less transparent than company reports. For example, their prospectuses do not disclose how much individual money managers are paid, though they do reveal the compensation of the money-management firms as a whole. They also disclose the pay of the funds' board directors.

Don Phillips, the boss of Morningstar, an agency that rates mutual funds, says the ICA needs strengthening. The chairman of each fund's board should, he says, be an independent director who produces an annual report. Disclosure rules for mutual funds ought to be the same as the rules for quoted company shares. Managers of mutual funds should also be obliged to reveal how many mutual-fund shares they own. “As they have a corporate structure, mutual funds should be treated like companies,” he argues.

The timing of reform

Until the SEC was pushed into action by Mr Spitzer's probe, it had neglected increasingly obvious problems in the mutual-fund industry. Last week Mr Spitzer accused the agency of being “asleep at the switch”. “If it were not for state regulators, the ongoing investigation of mutual funds may not have been launched at all,” says Mr Galvin, the Massachusetts regulator.

In some states, such as New York, securities regulation is part of the attorney-general's duties. In Massachusetts and other states, a state secretary is in charge. Mr Spitzer's jurisdiction is unusually large. Under New York's Martin Act, a 1921 state law, he is able to press civil and criminal charges. In Massachusetts, Mr Galvin can only bring civil charges.

Despite their missionary zeal, neither Mr Spitzer nor Mr Galvin can change the way that mutual funds are supervised. It is up to the SEC and federal lawmakers to decide on amendments to the ICA, and William Donaldson, the chairman of the SEC, has promised to unveil his agency's proposals for new regulation this month.

Reforms are being mooted throughout the industry. On October 30th, the Investment Company Institute (ICI), a trade group, endorsed a new rule that would oblige investors to put their orders into the hands of mutual-fund managers (rather than intermediaries) by 4pm in order to get the price of the day on which the order is placed. This would reduce the temptation for intermediaries to cheat on the time that orders are received.

The ICI also came out in favour of a 2% redemption fee on shares sold within five days of purchase. The measure is intended to frustrate market timing since it makes the frequent selling of shares more expensive. Vanguard's Mr Bogle argues that the rules should go even further, with a 2.30pm deadline for orders and a 2% redemption fee on shares that are sold within 30 days of purchase. But he concedes that he can live with the ICI's proposal.

Mutual funds oppose the earlier deadline and the new fee, arguing that such simplistic solutions are not in the interests of mutual-fund shareholders. Led by Fidelity, they are campaigning for a more effective clearing house (the agency that processes buy and sell orders). An improved clearing house, they say, would use outside audits and new encryption technology to determine exactly when intermediaries receive buy and sell orders.

The spreading scandal will be expensive for the industry. Regulators and lawyers are trying to recover losses on behalf of mutual-fund investors in legal actions that could cost firms hundreds of millions of dollars as well as ending many a fund executive's career. On October 21st, Milberg Weiss Bershad Hynes & Lerach, a law firm, filed a suit against Putnam and its parent company, the insurance broker Marsh &

McLennan, for alleged market timing in Putnam's international funds.

Staunching the flow

Many funds are finding that investors are deserting them. Bank of America, Bank One, Janus Capital and Strong Capital, the four fund sponsors named in the complaint that Mr Spitzer filed against Canary Capital, saw net withdrawals of $7.9 billion in September, and investors will probably have withdrawn billions more in October. Morningstar has already recommended that investors avoid Bank of America's Nations Funds, Bank One's One Group, Janus Capital, Strong Capital and the Fred Alger Management group.

Putnam is also losing assets as a result of its dubious practices. On October 30th, the state pension fund of Massachusetts decided to take $1.7 billion out of Putnam's managers' hands. The next day public pension funds in New York, Rhode Island, Pennsylvania and Iowa together withdrew $2.63 billion. Other public funds have indicated they will follow suit.

Even so, Morningstar's Mr Phillips thinks the withdrawals will be largely confined to the few funds whose abuse of investors' trust has been particularly egregious. Although investors have not been treated fairly, he says, they have not as a group been dramatically damaged. Research by Eric Zitzewitz at Stanford University's business school indicates that the total loss to investors caused by market timing and late trading might be about $5 billion a year, a handy sum but still less than 0.1% of the mutual funds' assets.

The ongoing scandal has many of the features of the crisis of corporate governance fuelled by the accounting scams of recent years and the sky-high pay of corporate CEOs. Again investors have failed to exert adequate control over the agents that they have entrusted to keep an eye on their money. Those agents—the directors of the boards of individual companies—have sided too much with management and chosen to ignore practices that are not in the best interests of the owners of their company. Should control not soon be re-exerted by shareholders (be they of companies or mutual funds) American capitalism could stumble as savers redirect their surpluses into the safekeeping of banks and mattresses.

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About sponsorship

New York Stock Exchange

In John Reed's hands

Nov 6th 2003 | NEW YORK
From The Economist print edition

Reuters

The New York Stock Exchange battles for its future

UNTIL recently pre-eminent among the world's stock exchanges, the New York Stock Exchange (NYSE) has been under fire since it emerged that its board had agreed to pay Dick Grasso, its then chairman, compensation of $188m, which seemed an awful lot to anyone who was not Dick Grasso or a member of the board. The exchange has also been under investigation by the Securities and Exchange Commission (SEC), America's main securities regulator, for the activities of its specialist firms, which quote prices in individual stocks. Mr Grasso was forced to resign, and in his place the exchange temporarily appointed John Reed, a former boss of Citigroup.

On November 4th, Mr Reed asked most of the board to resign and came out with a plan to reinvigorate the exchange. If it is to “recover its voice and legitimacy as leader of the US capital markets”, to use the words of his letter asking for authorisation for the changes sent out to the exchange's members, the exchange will have to do a lot—and do it quickly. That it will move quickly is not in much doubt; that it will do enough most certainly is.

The plan, as it is, will probably be accepted by members; there is no other on offer. And Mr Reed is pulling out all the stops to get members to accept it. After announcing the overhaul of the NYSE's governance structure, he promptly left on a cross-country tour to persuade members and regulators to support it before the exchange's members vote on the proposals on November 18th.

The SEC may want more changes, even though it was presumably consulted about the present ones: Bill Donaldson, the newish chairman of the SEC, is a former exchange boss. Mr Reed stopped short of challenging two important aspects of the NYSE: its status as a self-regulatory organisation, and its system of open-outcry trading built around specialists.

Though already discredited, the exchange's supervisory effectiveness has been further lambasted by an internal, though still confidential, SEC report, according to the *Wall Street Journal*. The NYSE has not responded, other than to complain about the theft that led to its disclosure. But Mr Reed says that he learned more about the specialist system from reading it than he ever did by going to the trading floor. A second report will detail how management of the NYSE fell apart, but it, too, will not be made public.

Mr Reed says there is no reason why a properly run NYSE could not do a far better job as a regulator, and use its reputation as a “superbly well-regulated market” as a selling point. Moreover, he claims that every study he has seen concludes that the specialist system provides better prices than purely electronic markets. Perhaps. But millions of investors have opted for electronic markets throughout the world, including in America.

Despite his desire to keep the NYSE's functions largely intact, Mr Reed has tackled the size and composition of the exchange's board. Out will go, with the agreement of members, the exchange's current bloated and ineffective 27-member board. In their place, Mr Reed has proposed appointing six new board members, all with glittering resumés and no history of excessive compensation, to serve along with two existing members untainted by the *ancien régime*. None will come from firms that are members of the exchange, though some do business with it, most notably Herbert Allison, the head of TIAA-CREF, a large pension fund.

The new structure reflects the need to avoid conflicts of interest, an area in which the previous board had been found wanting, and the board will continue to oversee regulation (for now), governance and compensation for the NYSE's executive. A second advisory board, comprised of brokers, specialists, listed companies and asset managers, will also be established, though Wall Street's finest are already grumbling about assisting an organisation that gives them no special privileges.

Usually a company under siege relies on its board to find a new chief executive. This time the process has worked in reverse, because the exchange is in such dire straits. Mr Reed's own role is transitional, and the new board he wants appointed will formally exist for only the next six months before annual elections. Any new board will need to choose a leader with vision, clout and unusually good networking skills. Several names are already being discussed and will need to be extensively screened.

Previous promises of reform by the exchange have tended to be confused, opaque and delayed, but this time necessity will speed the process up. Although trading volume, the key issue for the exchange, has risen in recent months as the market has recovered, doubts about the NYSE may cause some customers to trade elsewhere: on electronic rivals, for example. If they do, others may also jump ship, draining liquidity and pulling the plug on the overall market.

A good indicator of this concern is that the market capitalisation of LaBranche, which acts as the “specialist” for the largest number of listed companies, has fallen by two-thirds since late last year. Three years ago, Goldman Sachs spent $7 billion buying the second-largest specialist, Spear, Leads & Kellogg. A competitor says Spear is probably now worth only $1 billion, and even that may overestimate its worth to Goldman, given the bad publicity that has emerged from a steady stream of regulatory actions against the specialist firm.

As the NYSE evolved from its origin as a closed market, its ability to provide good, continuous prices to customers surely played a role in America's development of a dynamic, equity-based capital market, rather than the costly bank-based system common in other countries. In recent years, though, Wall Street as a whole has been lamentable in making money for anyone but those employed by it, and its public reputation is at rock bottom. If Mr Reed fails at the NYSE, even wider changes will almost certainly be the result.

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Russia's economy

False calm

Nov 6th 2003
From The Economist print edition

President Putin has reassured foreign investors that all's well in Russia. It isn't

THE arrest of Mikhail Khodorkovsky, Russia's richest businessman, followed by the government's seizure on October 30th of 44% of the shares of Yukos, the big oil company he managed before being stuffed into one of the country's more unpleasant prisons, weighs heavily on investors' minds. Or so you would think.

But since October 30th, when Mr Putin met with the bosses of a clutch of big investment banks active in Russia to reassure them that—notwithstanding a politically motivated arrest and the virtual re-nationalisation of the country's flagship company—he remains committed to the free market, the mood has become much cheerier. Russia's benchmark RTS index, which initially plunged 8%, has crept up almost every day since Mr Putin's meeting with bankers. The spread on Russia's international bonds over American Treasuries, which rose almost a percentage point in the past week, has since fallen to its level before the furore started. Indeed, on November 3rd, Deutsche Bank announced that it is going ahead with its purchase of a 40% stake in United Financial Group, a Moscow-based investment bank.

Memories, it would seem, are short. Only five years have passed since Russia's massive default left a clutch of western banks burnt and out of pocket. Yet in the face of political shenanigans that call into question the property rights and rule of law that underpin economic growth, foreign investors remain remarkably sanguine. “Take Yukos and political events out, and the fundamentals of Russia are still very strong,” argues Paul Timmons, an economist at Moscow Narodny Bank.

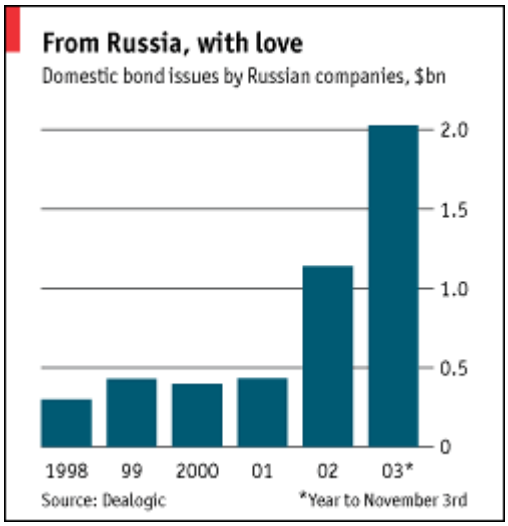
It is a typical view among banks' pundits. This time, the argument goes, things are different. The economy is stronger than it was in 1998. It enjoys huge current-account and fiscal surpluses, and since 1999 the economy has grown by over 5% a year. Moreover, the optimists argue, Mr Putin's reforms, most notably of the tax system, prove his commitment to growth. “Russia is a long-term buying opportunity,” says Harvey Sawikin, of Firebird Management, a hedge fund that runs four funds investing there, although he concedes that in the short term investors may be in for a rough ride.

The question, of course, is whether the rough ride will be as short or calm as he and others hope. The immediate question is how much politics, not for the first time, will intrude on the country's economic renaissance. There is much money at stake on the answer to this question. In recent years, western banks, lured by fat advisory fees and Russia's booming markets, stumbled over each other as they poured money into Russia, offering juicy loans at thin spreads to Russian companies with suspect managements and low ratings.

That enthusiasm seems undiminished. Just days after Mr Khodorkovsky's shares were frozen by the government, three underwriters joined the Citigroup-arranged syndication of two big loans to Yukos (which carries a junk rating from the big rating agencies), worth a total of $1 billion, even though the spreads on the deal, at one-and-a-half and two percentage points over LIBOR (the rate at which top western banks lend to each other), are lower than those at which Ford (which carries an investment-grade rating) can borrow.

According to Mr Timmons, this is also less than half the spread demanded for such a loan two years ago. Rather tight, perhaps, especially since the company was this week put on negative watch by Moody's (the agency that boosted Russia's sovereign debt rating to investment grade three weeks ago). Tight spreads reflect bankers' enthusiasm: syndicated-lending, often by foreign banks (including one that swore not to invest another dollar in Russia after the previous meltdown), has more than doubled since 1998.

Bond issues, too, are booming. The domestic market, which barely existed five years ago, has grown rapidly, but from a low base (see chart). But according to Dealogic, a research company, international bond issues by Russian companies leapt to $5.4 billion by this month, from $649m in 1997. Spreads required by investors have tightened on these too. Those for Tyumen Oil, the country's fourth-largest oil company, fell two percentage points between one issue in 2002 and another this year.



Then there is the stockmarket, which since 2000 has bubbled upwards. Some rise, perhaps a big one, seems justified. But the all-time high that the stockmarket reached on October 20th was 13% higher than its peak in 1997. Yukos and Sibneft, another oil company that it was taking over, together accounted for 35% of the index at its peak. Now they account for 27%. Whether they will continue to do so will depend presumably on the government.

Most telling, perhaps, is the kind of long-term foreign direct investment (FDI) that the country has been attracting. Whereas countries such as Poland have attracted manufacturing industry with their competitive labour, for exports all over Europe and beyond, investments in Russia are mostly in natural resources. The rest is largely lured by the need to get round its anarchic customs system. What FDI there is dropped from $5.3 billion in 1997 to $4 billion in 2002. This year, save for the planned investment by BP in Tyumen Oil for $7 billion, it has been anaemic.

And as western banks and fund managers have been diving in, locals have been getting out. According to the Economist Intelligence Unit, a sister company of *The Economist*, capital flight this year jumped to $23 billion after falling last year to $16 billion and has started to flee ever faster. Whom would you rather believe?

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Russia

And the owner is?

Nov 6th 2003
From The Economist print edition

The recent history of two Russians says much about property rights in Russia

INVESTING in Russia, a country where property rights are always someone else's, is for the brave, the connected or the Russians. Even all three attributes may not be enough, as the careers of Simon Kukes and Mikhail Khodorkovsky, the incoming and outgoing bosses of Yukos, Russia's largest oil company, attest.

In the late 1990s, the two aroused roughly equal loathing among western businessmen. As the boss of another oil company, Simon Kukes had masterminded a strategy in which his outfit, TNK, bankrupted a subsidiary jointly owned with BP in order to buy it on the cheap. That Mr Kukes, a Soviet-era émigré, had an American passport and western manners counted for nothing. “A creep fronting for a crook” was one British official's characterisation of him.

Mr Khodorkovsky was worse. He had assembled Yukos from a ramshackle collection of Soviet-era industrial assets, acquired in circumstances that bore little scrutiny. His management culture was impenetrable and autocratic, the accounts murky. An American investor, Kenneth Dart, who had unwisely bought stakes in Yukos's production subsidiaries, lost many millions of dollars as Mr Khodorkovsky stripped their assets and shovelled money offshore.

What a change a few years make. Since 1998, Mr Khodorkovsky and Mr Kukes in their different ways have smartened up their image. Mr Kukes was reconciled with BP. Mr Khodorkovsky hired a slew of western lawyers, consultants and oil talent from outside. Shares in Yukos soared. Even his harshest critics began to concede that this particular leopard had changed its spots.

Mr Kukes and Mr Khodorkovsky, in short, represented everything that foreigners found increasingly reassuring about Russia. They were businessmen who were prepared to play by the West's rules, and to treat investors well.

Eventually, Mr Khodorkovsky hired Mr Kukes as chairman of the Yukos board. A happy ending? No. The ex-KGB types in the Kremlin hated the idea of a truly independent institution in Russia. Mr Khodorkovsky was giving generously to opposition parties, and hinting that he might enter politics himself. So he went to jail, on flimsy charges of tax evasion. The Russian state, on even flimsier grounds, has seized a large stake in Yukos. And Mr Kukes is in the hot seat, running the company.

The moral of Mr Khodorkovsky's unhappy fate? Despite President Vladimir Putin's reassurances this week, Russia is a country in which laws mean what the Kremlin wants them to mean, property rights are notional and business depends far more on connections than on hard work and brains. Mr Kukes must be glad he has an American passport.

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America's economy

Another hangover in the making?

Nov 6th 2003
From The Economist print edition

America's spurt in growth is being fuelled by a dangerous cocktail

EVER since America's stockmarket bubble burst in 2000, *The Economist* has argued that America faced several years of sluggish growth, if not a deep recession, as the economy worked off the excesses that built up in the late 1990s. Yet the economy has come roaring back, with GDP rising by 7.2% at an annual rate in the third quarter—its fastest sprint for 19 years. Do we look a bit silly? Indeed. But there are still big risks ahead.

Certainly, the recent recovery has been startling. Over the past year, America's GDP grew by 3.3%. Growth is becoming more balanced. In the third quarter, consumer spending rose by 6.6% at an annual rate, but business investment was also up by an impressive 11%, housing investment grew by 20%, and even exports jumped by 9%. Corporate profits are rebounding and figures due on November 6th were widely tipped to show that business productivity grew at an astonishing 8% or thereabouts in the third quarter.

Many pundits have argued that America's brisk rebound, despite all that it has suffered—the bursting of the bubble, September 11th, corporate scandals and the Iraq war—proves just how wonderfully flexible and resilient its economy is. Flexibility played a part, but a smaller one than many believe. The main reason why the economy has held up better than expected is that it has enjoyed the biggest fiscal and monetary stimulus in decades.

No other country has experienced such a huge increase in its structural-budget balance (ie, excluding the automatic effect of the economic cycle). Thanks partly to tax cuts, it has swung from a structural surplus of 1% of GDP in 2000 to a deficit of 5% this year. Meanwhile, historically low interest rates sparked a boom in mortgage refinancing, giving households lots more extra cash to spend. And spend they have.

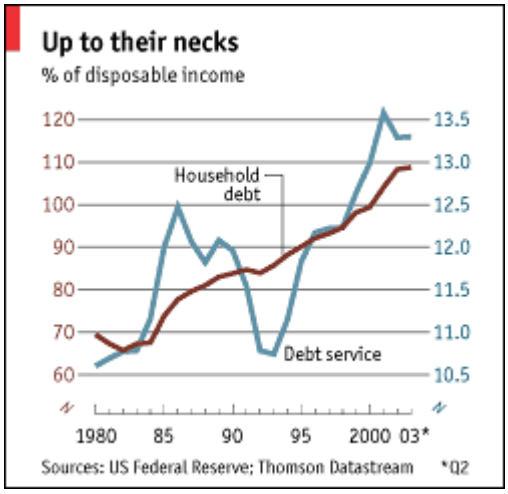
But the government cannot carry on handing out such largesse for ever. America's deteriorating fiscal finances rule out further big net tax cuts (see article). Long-term interest rates have also risen, and as a result mortgage refinancing has fallen by around 80% from its peak. In September real consumer spending dipped by 0.6%. If job lay-offs continue, consumers may also tighten their belts.

Business investment is picking up, but ample spare capacity will continue to discourage new spending. In September, manufacturing output was running at only 73% of capacity, well below the average of 81% over the past half century. In any case, business investment is too small a share of the economy to keep it aloft in the absence of robust consumer spending.

But the main reason for doubting that America is back on a path of strong, sustainable growth is that it has failed to purge the excesses of its previous boom. It is, to say the least, odd that at the beginning of an economic recovery many indicators—low saving, rampant household borrowing, record house-building and uncomfortably high stockmarket p/e ratios to name but a few—have more the look of a cycle that is drawing to a close.

Debt provides the best example. In the year to the second quarter (the latest figures available), borrowing by households rose by 11%, its fastest pace in real terms since 1985. Economists wearing rose-tinted spectacles point out that interest rates today are low, so households can afford to borrow more. The main snag with this argument (but by no means the only one) is that, despite low interest rates, households' debt-service payments are alarmingly high as a percentage of their income. The Federal

Reserve has recently revised its measure of household debt-service. In contrast to the old figures, this now shows that the debt-service ratio is higher than at its previous peak in the 1980s.



When interest rates inevitably rise to normal levels, debt-service ratios will rise higher still. But even while interest rates remain low, debt service will eat up a rising share of income if households keep borrowing more. Sooner or later, consumers will need to save more and spend less.

This week, both the Reserve Bank of Australia and the Bank of England raised interest rates largely because of concerns about soaring household debt. The Fed has instead signalled that it intends to keep interest rates low for some time in order to support the recovery. Given America's greater economic slack and hence the risk of deflation, that is understandable.

Alpine reflections

Why has this situation arisen? Austrians are in vogue in America, at least in California, so perhaps it is a good time to dust down Austrian business-cycle theory. This helps to explain why this economic cycle is different to previous post-war cycles, and why a full recovery could be delayed.

Early last century, economists such as Ludwig von Mises and Friedrich Hayek argued that, if interest rates were held below their “natural rate” (at which the supply of saving from households equals the demand for investment funds by firms), credit and investment will rise too rapidly and consumers will not save enough.

Sound familiar? America displayed many of those features in the late 1990s. Faster productivity growth raised the natural rate of interest, but because inflation was low (and because Austrian economics had long been out of fashion) the Fed failed to lift interest rates by enough. Investment and borrowing boomed.

Strict Austrian-school disciples would argue that, because America's recent downturn was due to overinvestment and overborrowing, slashing interest rates to encourage yet more borrowing was wrong because it delayed the need for households to save more. Central banks can postpone a downturn only by injecting more and more credit. The inevitable downturn is then deeper or longer.

But having made the mistake of allowing a bubble to inflate and then burst, the Fed now faces a difficult balancing act: trying to prevent deflation, while at the same time avoiding a credit bubble which may burst even more painfully.

Joachim Fels, an economist at Morgan Stanley, accuses the Fed of being a serial bubble blower. Slashing interest rates and pumping out liquidity every time a bubble bursts—from the Asian and Russian crises to the stockmarket bubble—creates yet another. America's latest bubble is in house prices and mortgage financing. By rescuing investors from their folly each time, central banks encourage increased risk-taking. On this view, the Fed will eventually run out of soap and the last bubble will burst.

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Trade

A marathon task

Nov 6th 2003 | WASHINGTON, DC
From The Economist print edition

Free trade suffers further from a bout of pre-election protectionism in America

PASCAL LAMY, Europe's trade commissioner, travelled to Washington this week after running the New York marathon rather more slowly than his usual pace. Perhaps his mind was elsewhere. After the disastrous meeting of the World Trade Organisation (WTO) in Cancún in September, trade relations between the European Union and the United States, who had worked closely if tetchily together before the meeting, have deteriorated fast. Several long-simmering transatlantic disputes, over steel and export subsidies in particular, now threaten to boil over. Yet just when compromise is needed, a still largely jobless economic recovery in America has boosted protectionist leanings in Washington, threatening to make things worse.

Mr Lamy's most pressing reason for visiting Washington was to see how far Congress had managed to get in eliminating the America's Extraterritorial Income (ETI) tax break, which was ruled illegal by the WTO three years ago. The ETI and its predecessor, the Foreign Sales Corporation tax break, were illegal subsidies disguised as a way to put America's big companies on an even footing with foreign rivals. The European Union (EU) says it will start slapping up to $4 billion in new tariffs on American products next March if legislation to repeal ETI is not in the president's hands by New Year's Eve.

The good news is that bills on the ETI have been through committees in the House and the Senate. But neither version goes far enough, and the chances of their doing so by the deadline are negligible. The House bill would cut the corporate tax rate for all firms, but provide even bigger breaks to smaller businesses as a way to compensate them for the loss of the ETI. The Senate proposal aims instead to lavish other tax cuts on American manufacturers. Shifting tax breaks around is an odd way of eliminating them.

Indeed, neither proposal eliminates ETI subsidies immediately: they would be phased out over several years. With election year looming, and job growth anaemic, congressmen are loth to pass laws that make it look as though they are encouraging the migration of jobs to cheaper climes.

Even if Congress eventually solves this problem, it could be faced with a war over steel. The WTO has already deemed the steel tariffs imposed last year by President George Bush illegal. On November 10th, it will rule on America's appeal. If it loses, as it probably will, the Europeans have vowed to retaliate with tariffs on a range of products by mid-December, unless America backs down. Whether it does so depends on whether there are more votes to be had from states that use steel or from those that produce it.

As if these two clashes were not enough, Congressman Duncan Hunter, a Republican from California, has proposed a “Buy America” act for the Pentagon, requiring it to favour home-grown weapons manufacturers over European rivals. Although his proposal has been watered down a bit, it still rankles in Europe; Romano Prodi, the president of the European Commission, has made it clear how much ill will an American preference for domestic arms-peddlers will foster.

With little effort anywhere to revive the Doha round of trade talks, and with Europe and America increasingly at each other's throats, the cause of free trade continues to suffer—and with it rich and poor countries alike.

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German banks

Nein!

Nov 6th 2003 | FRANKFURT
From The Economist print edition

Fierce opposition to calls for change in Germany's sclerotic banking system

STRONG doses of righteous indignation have followed calls from the IMF and the federal finance ministry for an urgent overhaul of Germany's rigid three-pillar banking system. Mergers between the three—private banks, savings banks and co-operative banks—are almost impossible, although bank consolidation is what Germany desperately needs. There is embarrassment locally that the world's third-biggest economy has only one big bank, Deutsche Bank, which could claim to be a global force. “And even that one is rather pathetic,” says a banker at another global bank.

The root of the problem is the country's regional structure: the savings banks and their wholesale partners, the Landesbanks, are organised on regional lines. While the savings banks are largely profitable, and predict an average return on capital of 11% this year, the Landesbanks are not: they lack capital and they have few direct customers, except those they have picked up on often-disastrous foreign adventures.

Revision of savings-bank laws, to allow their takeover by private banks, would have to be done state by state. And the savings banks are staunchly opposed to the mere suggestion of any such takeovers. “Private ownership would force us into the pursuit of maximum profits,” thundered Dietrich Hoppenstedt, head of the savings-banks association, this week. “Not all financial institutions see the capital markets as their lode-star”.

For private banks, this is the kind of talk that is stultifying the market and preventing change. They have called for a loosening of the regional principle. Last week they found an ally in Caio Koch-Weser, state secretary in the federal finance ministry, who urged public banks to seek a change in their legal statutes to attract fresh capital. As Mr Koch-Weser well knows, however, those changes can come only at the regional level, not by federal-government diktat.

The private banks have another ally: Horst Köhler, head of the IMF. In September, he suggested that instead of 11 Landesbanks, one was all that was needed to serve the savings banks. And he should know—he once had Mr Hoppenstedt's job. This week, an IMF review of Germany's financial sector was less extreme but said that the three-pillar system should go.

Progress, however, is likely to be glacial, although from 2005 the public banks will have to fund themselves without the benefit of state guarantees, thanks to pressure from Brussels. Some Landesbanks have rejigged themselves by creating joint-stock companies. But for real change to come, regional politicians must be persuaded to relax their grip on the savings institutions that are often used as instruments of public policy. Difficult to do by force; perhaps easier, suggests a deal-hungry investment banker, over a quiet dinner in Berlin.

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Japanese stockmarkets

Plus ça change

Nov 6th 2003 | TOKYO
From The Economist print edition

The mixed pace of reform in Japan is reflected in changes in the stockmarket

THERE are signs of a global economic recovery. The glimmer of an upturn has appeared in Japan. Japanese politicians are promising long-overdue reforms as a general election approaches. Many are convinced big changes are on the way. The enthusiasm of investors for Japanese shares, which has helped drive stocks skyward in recent months, is understandable.

Much depends, of course, on whether all these expectations of change are actually met. But as well as reflecting change elsewhere, the stockmarket itself, or rather who owns it, provides as good a gauge as any of the progress of reform.

It used to be that chummy companies, holding hefty chunks of each others' shares to promote “stability”, fostered complacency, prevented hostile takeovers and stopped the stockmarket allocating capital to deserving companies. Much like reform elsewhere, there has been, depending on taste, either a lot of change over the past few years, or precious little.

The Japanese stockmarket has always been something of an oddity, even more like a casino than other stockmarkets. This is, perhaps, a legacy of the rice traders who laid the foundation for today's stockmarkets several centuries ago, and who cared little how their commodity was grown.

Socially, the stockmarket has never been very acceptable, a perception reinforced by the jargon used on exchanges, which often has its roots in Yoshiwara, a red-light district of the Edo period. Shares are called *gyoku*, which also means “geisha”, while *o-bike*, the term for the close of the market, used to refer to the closing of the gates that kept drunken revellers in Yoshiwara for the night.

If the change in perceptions of the market has been slow, its role has changed somewhat faster. Foreign investors and pension funds have increased their share. Foreigners' share of the market has tripled over the past decade, which should improve corporate governance.

According to a recent report by NLI Research Institute, cross-shareholdings, including loose ones, which made up about 46% of the market a decade ago, fell to 27% in the year to March 31st 2003. This has a big impact on the biggest holders of cross-shareholdings, debt-ridden banks in particular. Under pressure from regulators to reduce their equity holdings, they have been steady sellers of stocks, which should help shield their capital from stockmarket fluctuations. They have had help from a government stock-buying body with ¥2 trillion ($18 billion) of funds, and more from a better scheme set up by the Bank of Japan a year ago, to which they have sold ¥1.9 trillion.

As ever in Japan, however, the picture is more mixed than all this would suggest. Though banks are selling shares, little is being transferred to the market, since banks sell largely to the government or the central bank which will hold them for years, or to the companies themselves, says Alexander Kinmont, a strategist at Nikko Citigroup in Tokyo. And the country's debt-ridden companies should on the whole be selling equity, not buying it.

Banks are also raising their stakes in their most troubled borrowers, via debt-for-equity swaps, in return for tepid restructuring schemes. Although pension funds, which should be more interested in forcing firms to perform, have increased their

share of the market over the past decade, this year they have been sellers.

This is largely because corporate pension funds have been returning funds that they used to manage on its behalf to the government. Some of this will be invested in shares by the government itself. But this leads to another problem, since it leaves the central bank and the government, already the largest shareholder at several big banks, in control of an increasingly large amount of shares (though much of this is counted as shares held by trust banks). It is doubtful that they will put much pressure on companies to boost returns.

There have been signs lately that foreign investors are losing their appetite for Japanese equities. A concern that they may turn tail is surely on the minds of Japan's battalion of margin traders, who trade securities on credit, and who have been punting like mad as the stockmarket has risen. Margin traders rarely show up in stock-ownership surveys, although they are perhaps the heirs to the rice traders of old. Yet the technology they use to trade is peerless. The paradox of Japan, on a trading screen.

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Economics focus

Hot potato revisited

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A lack-of-progress report on the Intergovernmental Panel on Climate Change

YOU might think that a policy issue which puts at stake hundreds of billions of dollars' worth of global output would arouse at least the casual interest of the world's economics and finance ministries. You would be wrong. Global warming and the actions contemplated to mitigate it could well involve costs of that order. Assessing the possible scale of future greenhouse-gas emissions, and hence of man-made global warming, involves economic forecasts and economic calculations. Those forecasts and calculations will in turn provide the basis for policy on the issue. Yet governments have been content to leave these questions to a body—the Intergovernmental Panel on Climate Change (IPCC)—which appears to lack the necessary expertise. The result is all too likely to be bad policy, at potentially heavy cost to the world economy.

In our Economics focus of February 15th this year, we drew attention to (and posted on our website) telling criticisms of the IPCC's work made by two independent commentators, Ian Castles, a former head of Australia's Bureau of Statistics, and David Henderson, formerly the chief economist of the Organisation for Economic Co-operation and Development (OECD) and now visiting professor at Westminster Business School. Their criticisms of the IPCC were wide-ranging, but focused on the panel's forecasts of greenhouse-gas emissions. The method employed, the critics argued, had given an upward bias to the projections.

The IPCC's procedure relied, first, on measuring gaps between incomes in poor countries and incomes in rich countries, and, second, on supposing that those gaps would be substantially narrowed, or entirely closed, by the end of this century. Contrary to standard practice, the IPCC measured the initial gaps using market-based exchange rates rather than rates adjusted for differences in purchasing power. This error makes the initial income gaps seem far larger than they really are, so the subsequent catching-up is correspondingly faster. The developing-country growth rates yielded by this method are historically implausible, to put it mildly. The emissions forecasts based on those implausibly high growth rates are accordingly unsound.

The Castles-Henderson critique was subsequently published in the journal *Energy and Environment* (volume 14, number 2-3). A response by 15 authors associated with the IPCC purporting to defend the panel's projections was published in the same issue. It accused the two critics of bias, bad faith, peddling “deplorable misinformation” and neglecting what the 15 regard as proper procedure. Alas, it fails to answer the case Mr Castles and Mr Henderson had laid out—namely, that the IPCC's low-case scenarios are patently not low-case scenarios, and that the panel has therefore failed to give a true account of the range of possibilities. If anything, as the two critics argue in an article in the subsequent issue of *Energy and Environment*, the reply of the 15 authors gives new grounds for concern. This week the IPCC is preparing to embark on its next global-warming “assessment review”—and if the tone of its reply to the critics is any guide, it is intent on business as usual.

It is true, as the IPCC says in its defence, that the panel presents a range of scenarios. But, as we pointed out before, even the scenarios that give the lowest cumulative emissions assume that incomes in the developing countries will increase at a much faster rate over the course of the century than they have ever done before. Disaggregated projections published by the IPCC say that—even in the lowest-emission scenarios—growth in poor countries will be so fast that by the end of the century Americans will be poorer on average than South Africans, Algerians, Argentines, Libyans, Turks and North Koreans. Mr Castles and Mr Henderson can hardly be alone in finding that odd.

Tunnel vision

The fact that the IPCC mobilised as many as 15 authors to supply its response is interesting. The panel's watchword is strength in numbers (lacking though it may be in strength at numbers). The exercise criticised by Mr Castles and Mr Henderson involved 53 authors, plus 89 expert reviewers and many others besides. Can so many experts get it wrong? The experts themselves may doubt it, but the answer is yes. The problem is that this horde of authorities is drawn from a narrow professional milieu. Economic and statistical expertise is not among their strengths. Making matters worse, the panel's approach lays great emphasis on peer review of submissions. When the peers in question are drawn from a restricted professional domain—whereas the issues under consideration make demands upon a wide range of professional skills—peer review is not a way to assure the highest standards of work by exposing research to scepticism. It is just the opposite: a kind of intellectual restrictive practice, which allows flawed or downright shoddy work to acquire a standing it does not deserve.

Part of the remedy proposed by Mr Castles and Mr Henderson in their new article is to get officials from finance and economics ministries into the long-range emissions-forecasting business. The Australian Treasury is now starting to take an active interest in IPCC-related issues, and a letter to the British Treasury drawing attention to Castles-Henderson (evidently it failed to notice unassisted) has just received a positive, if long delayed, response. More must be done, and soon. Work on a question of this sort would sit well with Mr Henderson's former employer, the OECD. The organisation's economic policy committee—a panel of top economic officials from national ministries—will next week install Gregory Mankiw, head of America's Council of Economic Advisers, as its new chairman. If Mr Mankiw is asking himself what new work that body ought to take on under his leadership, he need look no further than the dangerous economic incompetence of the IPCC.

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Mass extinctions

Making an end of it

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Some new ideas about why life on Earth has periodic crises

IN SCIENCE, as in most fields of human endeavour, fashion plays a role. Two decades ago, evidence was discovered that the dinosaurs (and a great many other, less well-known, creatures) were exterminated by a collision between the Earth and an extra-terrestrial rock. The evidence came in the form of a layer of clay rich in iridium that has been identified in sites all around the world, and appears to be the result of such a collision. One decade ago, a crater that seemed to be the same age as this layer was identified in southern Mexico. Since then, it has become fashionable to look for evidence of impacts at the time of the other four so-called mass extinctions that the record suggests have happened since fossils became abundant 545m years ago. Conversely, alternative explanations for mass extinctions, such as the huge volcanic eruptions that often seem to coincide with them, have fallen out of fashion.

Fashion, however, is fickle, and those other explanations are once again jostling on the catwalk with the impact theory. Some were aired at the annual meeting of the Geological Society of America (GSA) held in Seattle during the first few days of November. Meanwhile, the evidence for a single huge impact which wiped out the dinosaurs is itself under attack. Those sniping at it are not—at least not yet—arguing that the impact theory is completely wrong. But they are arguing that the Mexican crater is not part of the story because, they say, it was made some 300,000 years before the dinosaurs disappeared.

Sudden impact

The chief heretics are Gerta Keller of Princeton University in America, Thierry Adatte of the University of Neuchâtel in Switzerland, and Wolfgang Stinnesbeck of the University of Karlsruhe in Germany. In April, they announced preliminary data to support their dissent at a conference in Nice. They have now published them in the *Journal of the Geological Society* (the society in question being the British, rather than the American one).

The moment most people were persuaded that the dinosaurs were killed by an impact was when the crater in Mexico was shown to have been created 65m years ago, at the end of the Cretaceous period. This was when the iridium layer was formed (many extra-terrestrial rocks are far richer in iridium than those found on Earth, so a large impact that scattered the iridium seemed a reasonable conclusion to draw), and when the dinosaurs disappeared. But dating things as old as this, which is done by studying the products of radioactive decay, is not a precise science. An error of 300,000 years is not out of the question. This is where Dr Keller and her collaborators come in. They have convinced themselves that,

wherever the iridium came from, it was not ejected by the Mexican impact.

Their evidence comes from the rocks of the Gulf of Mexico and the Caribbean that surround the crater. These contain small glass globules. No one disputes that these globules were formed from stuff melted and thrown into the air by the impact, because their chemical composition matches rock from the crater itself. Above the globules are several metres of sandstone, shale and limestone. Then comes the iridium.

The conventional explanation for this arrangement is that the glass fell to Earth first, then giant waves caused by the impact covered them with sediment, then iridium-containing dust settled out of the atmosphere over the course of a few weeks and formed the clay.

Dr Keller, however, contends that the sandstone, shale and limestone layers were deposited over a long period of time. Her evidence is that many of these layers contain animal burrows that seem to start at the surface of the layer, suggesting that the layer in question had been buried subsequently. She has also found several layers of globules. She is not suggesting that these came from different impacts (they are all chemically similar to one another), but rather that the sediments have been “reworked”, perhaps by subsequent mudslides. That, again, would have taken time.

Most tellingly, she says that rock cores taken recently from the crater itself show a band of sediment above the impact that contains fossils of tiny creatures that became extinct only at the end of the Cretaceous. This band also contains several layers of a mineral called glauconite, each of which would have taken tens of thousands of years to form.

Putting all this together, she suggests the Mexican impact happened 300,000 years before the end of the Cretaceous. The iridium, and the end of the dinosaurs, she believes, were caused by another impact whose crater has yet to be located.

Naturally, not everyone agrees with this interpretation of the data. Jan Smit, of the Free University in Amsterdam, is particularly critical. It was he who first came up with the giant-wave explanation for the layers of sediment between the glass globules and the iridium.

According to Dr Smit, the multiple layers were the result of waves from the impact sloshing around in the primitive Gulf of Mexico and passing over individual sites several times. And the microfossils in the sediment over the crater are either misinterpretations of material that has recrystallised over time, or were washed in from nearby rocks just after the crater was formed. He points out that rocks from contemporary swamps in North America show little separation between the glass globules and the iridium. It is also unlikely that two impacts as big as the one that caused the Mexican crater and the one that spread iridium around the world would occur within 300,000 years of each other. But, of course, it is not impossible.

It's a gas

So what killed the dinosaurs is still disputed by some. But a question which is just as intriguing is: what brought them to power in the first place? The answer may have something to do with another mass extinction, this time some 202m years ago at the end of the Triassic period. The Triassic was the first age of reptiles. Dinosaurs existed, but were a minor part of the fauna. However, when the other reptiles died out, the dinosaurs went sailing on. Peter Ward, of the University of Washington, in Seattle, told the GSA that he thinks he knows what caused the extinction, and that it explains the dinosaurs' success.

Dr Ward's explanation draws on work by Robert Berner, at Yale. Four years ago Dr Berner put together all the available evidence and estimated how the level of oxygen has changed over the past 600m years. His model suggests it peaked at around 35% of the atmosphere some 300m years ago, then more than halved over the course of about 75m years. It remained low for 50m years, then picked up and has hung around its current level (21%) ever since. This meant that there was a long period when the air would have been about as breathable as that now found at the top of a high mountain.

This, in itself, would not be enough to cause a mass extinction, but it might set the stage. Dr Ward's thesis is that the volcanic eruptions which marked the end of the Triassic filled the atmosphere with greenhouse gases such as carbon dioxide. That would cause the temperature to rise, putting further stress on animals, and would favour those with efficient breathing mechanisms.

As it happens, dinosaurs appear to have had such a mechanism. Like the birds which are their descendants, many of them had hollow bones. Like those of birds, these hollows probably contained air sacs, and that would have allowed dinosaurs to have a bird-like breathing mechanism in which the air passes right through the lungs twice (once on the way in and once on the way out). This is much more efficient than drawing air in and then leaving it to hang around before expelling it, and Dr Ward reckons it gave the dinosaurs an edge that allowed them to survive conditions at the end of the Triassic, and subsequently prosper.

Dr Ward thinks that a similar mechanism of little oxygen and greenhouse warming was also responsible for the biggest mass extinction of all, that at the end of the Permian, some 251m years ago, when 95% of species known from fossils died out. However, Lee Kump, a geologist at Pennsylvania State University, suspects there was more to it than that. Besides being stifled, he reckons, Permian life may have been poisoned.

The poison, Dr Kump suggested to the GSA meeting, was hydrogen sulphide. Like the end of the Triassic (and, indeed, the end of the Cretaceous) the end of the Permian was a time of huge vulcanism. As conditions deteriorated, and oxygen became scarcer and scarcer, undecayed organic matter would have accumulated in the oceans, encouraging so-called anaerobic bacteria, which can live only in oxygen-free conditions. Many of these bacteria generate hydrogen sulphide as a waste product. Dr Kump's hypothesis is that at an inconvenient moment a lot of this gas “burped” to the surface.

The only problem with Dr Kump's hypothesis is that he has no actual evidence for it. But he hopes to gather some soon, from rocks in Japan. And if he does, you can bet that yet another theory will come oozing down the catwalk to sneer at it.

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Genetically modified crops

Amaizing

Nov 6th 2003
From The Economist print edition

Genetic modification works

Get article background

FINICKY consumers in the rich world, particularly in Europe, may be rejecting genetically modified crops, but a report by the International Service for the Acquisition of Agri-biotech Applications (ISAAA), a not-for-profit organisation based in Ithaca, New York state, suggests that many poor countries are embracing them enthusiastically. The report examines the take-up of maize that has had the gene for a natural insecticide produced by a bacterium called *Bacillus thuringiensis*, or *Bt*, engineered into it.

At the moment, according to the ISAAA, 9% of the world's maize crop is lost to insect pests. That loss costs $5.7 billion, while a further $550m is spent on insecticide. The organisation reckons the widespread deployment of *Bt* maize could halve both figures. It reports that trials of the modified crop raised yields by up to 23% in China, by up to 24% in Brazil, and by up to 41% in the Philippines. Gains in countries where *Bt* maize is already planted commercially, such as America, Argentina, South Africa and Spain, range from 5% to 10%.

One of the principal uses of maize is to make animal feed, and the ISAAA expects the maize harvest to outstrip those of wheat and rice by 2020, as meat consumption in many currently poor countries rises along with incomes. Genetic modification should help to increase the economic impact of that shift, while reducing its environmental impact.

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Cancer therapy

Finely tuned

Nov 6th 2003
From The Economist print edition

A new technique for destroying cancers by overheating them

FORGET “Fantastic Voyage”. Miniaturised medical interventions may soon be real if Jennifer West, of Rice University in Houston, Texas, has anything to do with it. In this week's *Proceedings of the National Academy of Sciences* she and her colleagues describe a sophisticated way of cauterising cancers using precisely engineered “nanoshells”. This could provide a better way of dealing with ill-defined tumours than the current strategy of cutting them out, together with a lot of surrounding healthy tissue.

A nanoshell is a fancy name for a sphere a few nanometres (billionths of a metre) in diameter, that is made of an insulator (in this case silica) that has been coated with a conductor (in this case gold). The reason for Dr West's interest in them is their electrical properties. The conducting shell around the core acts as a so-called plasmon resonator. A plasmon is a type of electrical wave, and a shell of a particular size will resonate with a plasmon of a particular frequency, rather as a bell of a particular size resonates with a particular note when struck.

That is useful because an object's plasmon-resonance frequency governs many of its optical properties, including which wavelength of light it absorbs most easily. And what Dr West wanted to create was something that would absorb a particular wavelength of infra-red light that flesh is transparent to. Her reasoning was that, if she peppered a tumour with nanoshells of the appropriate size, and then shone light of this wavelength at it, the nanoshells would absorb the light, heat up, and destroy the tissue around them.

To test this idea, she first used human breast-cancer cells cultured in a Petri dish. When mixed with nanoshells and exposed to infra-red light, these cells were satisfactorily destroyed.

Next, Dr West turned to animals—in this case mice that had been inoculated with cancer cells which had gone on to form tumours. The first job, of course, was to locate these tumours precisely. This was done using magnetic-resonance imaging (MRI). Then, Dr West injected the tumours with nanoshells and exposed the mice to infra-red light. After she had done this, she killed the mice and examined the tumorous areas, comparing them with those of control mice which had undergone a similar procedure except that they had been injected with brine instead of nanoshells.

The results showed that the nanoshells had done their work, heating up and killing the cells around them. Cells in the controls, by contrast, were unaffected.

Mice are not people, of course. Nor has Dr West shown that her method can actually extirpate a tumour, as opposed to damaging it. In particular, turning nanoshells into a therapy will require a better technique than MRI to locate all the cancerous tissue in a tumour. But fortunately, Dr West has one up her sleeve. Tumour cells have different proteins from healthy cells on their outer membranes. That means it is possible to make antibodies that recognise tumorous cells and stick to them. By coating her nanoshells in the appropriate antibodies, Dr West thinks she can make them stick preferentially to tumours. Then only cancerous tissue would get zapped by the heat. It looks like a promising technique. And not a film star in sight.

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Sexual selection

Cocks of the rocks

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More news from the battle of the sexes

Cocking an eye at the ladies

COCKERELS, like the males of many species, are promiscuous. What may be less widely recognised is that hens, like many females, are promiscuous, too. And that affects the way that cocks behave. A paper in this week's *Nature*, by Tommaso Pizzari, of the University of Leeds, in England, and his colleagues, explores a long-held but little-tested theory about one consequence of this: that males should be stingy with their sperm.

Sexual selection theory observes that eggs are more costly to produce than sperm, therefore females have a lower maximum reproductive output over the course of their lives than males do, therefore females should be more choosy about whom they mate with than males are. All true. But the cost of sperm is not negligible, so males should be choosy, too. And that is what Dr Pizzari found.

Comb size in females is a good predictor of egg size, and chicks hatched from large eggs have a better start in life. Not surprisingly, Dr Pizzari found that when given the option, cocks preferred hens with larger combs. They also mated more often with them than with their less well-endowed sisters, even when no choice was available. And, more subtly, they released more sperm when they mated. (Dr Pizzari measured this by fitting the females with special harnesses to collect the ejaculate.)

Cocks are also acutely sensitive to competition. Offered a hen by herself, they paid her less attention and transferred fewer sperm with each ejaculation than if other cocks were present. The more rivals that were visible, the more attention and sperm she got. More rivals mean it is more likely that a hen has mated already. Increasing the number of sperm increases the chance of one of them winning the race up the female's reproductive tract.

Dr Pizzari's third observation was that familiarity breeds neglect. When a cock copulated regularly with the same hen, he gradually lost interest in her. His rate of copulation dropped off, as did the number of sperm transferred on each occasion. This was not, however, an indication that he was running out, for if he was presented with a new hen, his attention and his sperm count went up.

It is, of course, dangerous to extrapolate from one species to another. But if any of this sounds familiar to readers—particularly female readers—it is worth remembering that selective pressures are universal. Unfortunately, though, hens have not invented the rolling pin, with which to discipline their erring mates.

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American exploration

The first wave

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Charles Wilkes, who led America's first expedition to the South Seas, wanted to be the new world's Captain Cook. Instead, he became its Captain Bligh

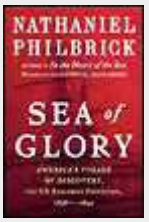
CHRISTENED by Ferdinand Magellan, the Pacific Ocean covers more than 64m square miles and is bordered by five continents. It has drawn travellers for centuries, but only after Captain Cook set sail for the South Seas in 1768 did international efforts to explore the world's last watery frontier really begin. In the decades that followed, Britain would send 28 expeditions to the Pacific, France 17, and Spain, Russia and the Netherlands 13 between them in a bid for new colonies, commerce and clout. Notable by its absence was America, which in the early 19th century was busy building railways, roads and canals at home. Government-sponsored exploration started with the Lewis and Clark expedition beyond the Rockies in 1803, but it would take years more before America realised that it had to look beyond its borders and out to sea if it really wanted to "plant its flag in the world".

In 1838 America finally joined the fray with the launch of the Ex.Ex.—the United States South Seas Exploring Expedition—in which six ships with 346 men set sail from the navy yard at Norfolk, Virginia. The size of the expedition was unprecedented, especially for a nation whose navy was less than half the size of Britain's, and it carried a weighty cargo: "the expectations of a young, upstart nation" that wanted to establish new commerce and forge a diplomatic presence in the Pacific, where the European heavyweights were already vying for control.

Twenty years later, the Ex.Ex. had been all but forgotten. How could such an ambitious enterprise fall into obscurity? Nathaniel Philbrick offers an answer in "Sea of Glory", his gripping history of the remarkable search for the "ice-studded mystery" at the bottom of the world.

Mr Philbrick details the decade of the political infighting that damaged the Ex.Ex.'s reputation even before it raised its first sail. He also analyses the controversial appointment of the low-ranking and inexperienced yet furiously ambitious Lieutenant Charles Wilkes as its commander, a move which caused splutterings of outrage in the stuffy navy. Wilkes, nicknamed "the stormy petrel", undermined and alienated his men, and much of the book focuses on his deplorable leadership. "We would have given ourselves to him entirely", wrote William Reynolds, an officer, "but by his own doing he has turned his warmest friends into deathly foes."

Sea of Glory: America's Voyage of Discovery—The U.S. Exploring Expedition 1838-1842
By Nathaniel Philbrick



Viking; 452 pages; $27.95.

Buy it at
Amazon.com
Amazon.co.uk

Far from imitating his hero James Cook, the egotistical and paranoid Wilkes rapidly came to resemble another maritime tyrant, William Bligh. Raging at his lowly rank, Wilkes audaciously promoted himself to captain, appearing on deck in “an immense pair of Epaulettes”. In a further act of self-aggrandisement he pinned a commodore's pennant to the mast of his ship, the *Vincennes*, writing to his wife that it would “add to my influence over the officers and crew”.

Mr Philbrick's greatest skill lies in his portrayal of life afloat; his conjuring up of tiny matchwood ships threading their way among the towering Antarctic icebergs, “a near suicidal endeavour in a sailing vessel”, and of Pacific reefs that lay waiting to ensnare their fragile wooden hulls. At the mouth of the Columbia River, described by Wilkes as “one of the most fearful sights that can possibly meet the eye of a sailor”, he describes the terrifying wreck of the *Peacock*, hull slamming on hard sand, masts flexing, the hold filling with icy water and the raising of the American flag upside down—still a sign of distress today.

Yet, despite Wilkes's despicable character the Ex.Ex. did achieve what it had set out to do. After four years, the loss of two ships and 28 men, the expedition had logged 87,000 miles, surveyed 280 Pacific islands, drawn 180 charts and explored the Pacific north-west. It had found the Antarctic continent and mapped 1,500 miles of its coast which still bears the name Wilkes Land. Ex.Ex. scientists brought back over 40 tonnes of specimens—more than all of Cook's voyages combined—including 2,000 new species that would form the basis of the Smithsonian Institution.

These achievements should have guaranteed a triumphant return for the expedition. Instead, a series of courts-martial, a change in political climate and Wilkes's own calculated attempts at publicising his exploits turned public opinion against it. America, of course, came to dominate the world, but until now ignominy and obscurity would be the only legacies of the blighted venture that “Sea of Glory” brings so superbly to life.

Sea of Glory: America's Voyage of Discovery—The U.S. Exploring Expedition 1838-1842.
By Nathaniel Philbrick.
Viking; 452 pages; $27.95.
To be published in Britain by HarperCollins in March 2004

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About sponsorship

Diplomacy

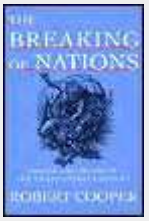
Trying to explain what's going on

Nov 6th 2003
From The Economist print edition

THE foreign-policy shelf is not short of big-picture books offering to explain a world turned upside down. Yellowing but valuable are two post-cold-war classics, Francis Fukuyama's hopeful claim that liberal democracy has triumphed and Samuel Huntington's gloomy prediction of lasting civilisational conflict. Stacking up beside them are several hasty (or hastily revised) post-September 11th ruminations on the changing nature of war, the hard and soft varieties of international power or the impact of American dominance.

Robert Cooper, an intellectual British diplomat now working for the European Union, adds his name to the list with “The Breaking of Nations”. It consists of two thoughtful essays and a brief epilogue on Europe and America. Unlike his competitors, Mr Cooper does not offer a single organising idea, but rather a wealth of historical parallels and conceptual distinctions pithily expressed. This approach avoids one weakness at the cost of another. Big ideas are easy to shoot down. Without them, on the other hand, you risk re-describing chaos.

The Breaking of Nations: Order and Chaos in the Twenty-First Century
By Robert Cooper



Atlantic Books; 192 pages; £14.99.

Buy it at
Amazon.com
Amazon.co.uk

The strongest essay is the first, “The Condition of the World”, written originally in 1996. The new world order, Mr Cooper tells us, consists of three kinds of state: pre-modern states (the troublesome, imploded kind like Bosnia and Afghanistan), modern states (by which he means the old-fashioned sovereign nation behaving in me-first ways) and post-modern states (committed to open, pacific, rule-observing and transnational affairs like the European Union).

Mr Cooper is at heart both a Europeanist and a multilateralist. To organise a messy world he thinks the best alternative to the cold-war balance of power is the post-modern state. Freer trade, open internal borders, abandonment of war, and co-operation among governments and peoples on ever-expanding fronts are, give or take, Europe's story since 1945. On it shorrific past form, the story is doubly attractive—perhaps copiable elsewhere.

Only Mr Cooper recognises two snags. One is America. The other is events. America, he tells us, stands “outside and above” the post-modern system, as guardian (and underwriter) of rules it feels itself unbound by. His epilogue asks how the rest of the world will cope with America's pre-eminence. More European money for defence is only part of the answer, he thinks. But his coda is too brief to delve deeper.

As to events, terror and Iraq have darkened Mr Cooper's vision. The 21st may be Europe's worst century, he writes. His second essay, five diplomatic maxims written in 2001 as a briefing note (not sent) for Britain's prime minister, opens ominously: “This is a dangerous world and it is going to become more dangerous.” Humanitarian intervention in collapsed states, sustained counter-terrorism and readiness to fight to remove the deadliest weapons from the wrong hands: all will be needed, he believes.

Mr Cooper has good instincts. He is a pro-American, pro-United Nations, pro-European who is for multilateral diplomacy if possible and war when necessary. Yet can anyone be all of those at once? If they can, what practically should Europeans do to make their world less daunting? Despite its dialectical brio, his book has more questions than answers.

The Breaking of Nations: Order and Chaos in the Twenty-First Century.
By Robert Cooper.
Atlantic Books; 192 pages; £14.99.

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About sponsorship

Siberia

Destiny at -60°C

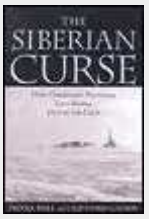
Nov 6th 2003
From The Economist print edition

RUSSIA is the wrong shape. Too big, far too long, flat for much of the way and accursedly mountainous in between; but above all, as Fiona Hill and Clifford Gaddy show in this fascinating study, the wrong shape economically.

Its problem, in a word, is Siberia. All Russia's rulers have been obsessed with territory, and Siberia, with its vast expanses, unearthly cold and untold reserves of oil, wood, diamonds and metals, is an obsession-forming place. Both the tsars and the Bolsheviks moved people there, both to exploit the wealth and stake Russia's claims to the land—the Bolsheviks most effectively, with planned cities and labour camps in Siberia's remotest reaches.

As a result, millions of people ended up in Siberia who would never have gone there in a market economy. Canadian cities, for instance, cluster near the southern border; people who go north do so only seasonally. Alaska's only biggish city is Anchorage. Russia, though, is dotted with such mining towns as Norilsk (metals, population 235,000) and Mirny (diamonds, population 40,000), where winter lasts 10 or 11 months, temperatures drop to -60°C, and the nearest big cities—themselves none too warm—are hundreds of miles away.

The Siberian Curse: How Communist Planners Left Russia Out in the Cold
By Fiona Hill and Clifford Gaddy



Brookings Institution; 213 pages; $46.95 hardback, $18.95 paperback.

Buy it at
Amazon.com
Amazon.co.uk

Using a clever indicator, “temperature per capita”, the authors show that while the average Canadian's environment has got warmer over the past century, the average Russian's has grown colder. Cold means cost: in Soviet times, construction and living costs were up to 50% higher in Siberia and the Russian Far East than in European Russia. Distance means cost too: a developed economy depends on internal as well as external trade, and trade over thousands of miles is expensive. Instead of forming an economic network, Russia's cities are islands, with few economic links except back to Moscow. Many, over inflated by Soviet planners, are too big to survive economically. Yet Soviet cities are also the hardest in the world to shrink, because they rely on centralised heating that can be cut off only to entire neighbourhoods one at a time.

What all this adds up to is that turning Russia into a true market economy is tougher than anyone thought. Rampant corruption, crony-capitalism or a weak banking system are minor annoyances compared with the fact that too many Russians are simply living in the wrong places for the economy to work properly. Some are already moving west; nobody builds company towns in the Arctic circle any more. But, say the authors, the government needs to help. “The basic principle is to maximise labour mobility.”

How? Unfortunately, the book contains only a few general suggestions, such as easing restrictions on internal movement and providing financial incentives. But as the authors recognise, the first and biggest problem is psychological: the sense that Russia's wild east, like America's wild west, is part of the country's manifest destiny. The typical Russian leader wants Siberia not emptied out, but repopulated as a buffer against the trickle of Chinese immigration that he fears could become a flood (even though no Chinese wants to live at -60°C any more than a Russian does). If only some of them would read this book, Russia might start shifting towards the right shape.

The Siberian Curse: How Communist Planners Left Russia Out in the Cold.
By Fiona Hill and Clifford Gaddy.
Brookings Institution; 213 pages; $46.95 hardback, $18.95 paperback.

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About sponsorship

Architecture

Form follows finance

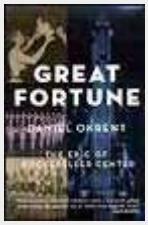
Nov 6th 2003
From The Economist print edition

A GREAT mystery surrounding Rockefeller Centre, in the heart of New York, is how such a masterpiece of urban renewal came to be created by a committee. Architects are notoriously tetchy, yet somehow five top members of this quarrelsome profession managed to create America's mightiest downtown development.

A still greater mystery is Rockefeller Centre's continued pre-eminence. It has inspired every giant city-centre complex in modern America, including those in Detroit, Atlanta and San Francisco. Yet none of these offspring has come anywhere near matching, let alone surpassing, its parent's achievements.

The solution to both mysteries emerges in a close reading of Daniel Okrent's obsessively detailed yet readable story about the transformation of 12 acres of speakeasies and flophouses in midtown Manhattan into a soaring city-within-a-city. The answer, in a word, is the economy. Work on Rockefeller Centre started in earnest in the winter of 1929-30 when, as a contemporary observer put it, the whole economy of the United States clapped a hand over its heart and uttered a piercing scream.

Great Fortune: The Epic of the Rockefeller Center
By Daniel Okrent



Viking; 544 pages; $29.95

Buy it at
Amazon.com
Amazon.co.uk

Architects and developers, who could afford to be picky during the roaring 1920s, were suddenly desperate for employment and there was only one big job available: the project financed by John D. Rockefeller junior. In an effort to win a share of the work, fractious, overbearing men were for once ready to behave nicely towards one another. Even such Cain-and-Abel types as Raymond Hood, a hard-drinking visionary architect, and John Todd, the authoritarian teetotaller that Rockefeller hired as his chief developer, became good business buddies.

In a slumping economy, suppliers quoted rock-bottom prices—not just manufacturers of steel, glass and scaffolding but also painters, sculptors and other artists seeking commissions. It is to Todd's, and his master's, everlasting credit that they ordered and employed not the cheapest but the temporarily affordable best and brightest. Both Rockefeller and Todd realised that when the economy eventually recovered “the better the building, the higher the rents”.

Of course, such a huge development was bound to excite controversy. A few of the commissioned artists inevitably sought to defy Rockefeller's edict that religious and political representations were out of place in commercial buildings. Diego Rivera had a panel glorifying Lenin in a mural and Attilio Piccirilli snuck fascist imagery into architectural sculpture.

The complex itself also provoked withering criticism. The *New Yorker* hated it at first and the magazine's cranky editor, Harold Ross, provided ample space for Lewis Mumford, E.B. White and other polemicists to mock and scorn and denigrate what he regarded as an eyesore.

But even he was eventually prepared to admit that he was wrong. The critics were all but silenced when the *New Yorker* declared in 1933 that Rockefeller Centre was “beautiful” and added that “if Mr Rockefeller will send us over a level teaspoonful of strained dirt, we will eat it publicly”. Two years later, Le Corbusier, the high priest of modern architecture, gave the complex his blessing. Its reputation has kept rising ever since. In an interview with Mr Okrent, Paul Goldberger, a leading architectural critic, said of the collaborative design effort: “A camel should have been produced. Instead, they got a racehorse.”

Great Fortune: The Epic of the Rockefeller Center.

By Daniel Okrent.
Viking; 544 pages; $29.95

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Classical music

Its place in life

Nov 6th 2003
From The Economist print edition

DURING the last century, many music-lovers experienced sharply divided feelings toward the works of the past and those of their own time. While Bach, Mozart and Beethoven inspired pleasure, contemporary composers provoked bemusement, irritation and finally indifference with pieces of an abrasive atonality that brought to mind chain saws or squeaky gates.

Music: Healing the Rift
By Ivan Hewett

Continuum; 288 pages; $22.95 and £14.99

Buy it at
Amazon.com
Amazon.co.uk

The gulf separating audiences and modern music is the subject of Ivan Hewett's ambitious and passionate book. Each chapter examines an aspect of the crisis which arose when a sense of musical taste shared by listeners and composers was replaced by more romantic notions of personal inspiration and ever more extreme forms of expression. Mozart and Wagner represent quite different attitudes towards subjectivity and musical experience, but they are both part of the Austro-German tradition.

From the early 20th century, complexity, individuality and expressive intensity grew apace in classical music, exacerbated by imports of such new dialects as jazz. These developments produced what Mr Hewett terms modern music's "irredeemable multiplicity". Its most prominent forms included the drive for a new structural purity, championed by Arnold Schoenberg's 12-tone system, the electronic experiments of Karlheinz Stockhausen, the quick-silver intricacies of Elliott Carter and Harrison Birtwistle's blend of primal force and metrical subtlety.

Despite their professional stature, these composers are still regarded with suspicion by the general public for their rejection of tonal tradition. Although, in the last couple of decades, there has been a return to tonality, in the work of John Adams, John Tavener and Arvo Pärt, Mr Hewett still worries about the effect of what he calls "the New Naivety" which treats music like some kind of dreamy soundtrack requiring no intellectual or imaginative effort.

Indeed, in a surprising and far-reaching final chapter, Mr Hewett warns against turning music from "something participated in to something merely consumed". The real rift he would like to see healed concerns the fundamental place of music in society, as the natural accompaniment to public occasions of all sorts, its place in ages past. His final plea imagines "an active music-making people" involved in the classical music of their time, so that "its formal and human qualities can shine forth".

It is a remarkable vision, which, like much of this ardently informed book, leaves the reader wishing Mr Hewett had spent more time defining and clarifying his terms. But there is no question about his thought-provoking mix of energy, conviction and learning.

Music: Healing the Rift.
By Ivan Hewett.
Continuum; 288 pages; $22.95 and £14.99

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Poetry

The master's voice

Nov 6th 2003
From The Economist print edition

TED HUGHES was the most important English poet of the post-war era, and in celebration of his achievements, his publishers have produced the longest edition of collected poems in living memory. The collection could have been much longer still; there are none of his poems for children here, none of his translations and none of the verse dramas. Yet even in its truncated form, does Hughes's work deserve such lavish treatment?

Collected Poems
By Ted Hughes
Edited by Paul Keegan

Farrar Straus and Giroux; 1376 pages; $50.

Buy it at
Amazon.com
Amazon.co.uk

Hughes re-defined the shape of post-war English poetry in 1957 with the publication of “The Hawk in the Rain”, the first of many books. Generally speaking, the early-to-middle 1950s in England had been defined by tidy, reasonable poets, relatively small in their ambitions. Hughes's first book, published when he was 27, came like a gust of wind, a raw, vigorous celebration of instinctive animal energy.

The best poems are those that describe the behaviour of animals: the hawk which “effortlessly at height hangs his still eye”, or that jaguar in the zoo, “hurrying enraged through the prison darkness after the drills of his eyes”. These were animals all right, but they were also sacred, mythical beings, embodying wildly transgressive forms of behaviour. Hughes wrote in a kind of explosive free verse. Like Walt Whitman, he was not easily contained by rhyme schemes or regular metres, and his poems were often untidy in their forward surgings rather as the sea is untidy.

In 1956 Hughes married Sylvia Plath, an American, who was also to develop into a poet of great stature. Seven years later she committed suicide and Hughes would be forever charged with having caused her death. In 1970, his poetry changed direction in a sequence of poems about a crow. This was not a very particular crow, not in the way that his dead pig had been a real dead pig or his otter a beautifully characterised otter. It was the vehicle for a cycle of rootless creation myths. The explosive energy was still there, but there was a random quality to his detonations. Hughes's poetry lost much of its force after this, although the best of his work over the next decade or so, in such books as “Season Songs” (1975) and “Moortown” (1979), returned to the land.

In 1994, he contributed to an anthology inspired by Ovid‘s “Metamorphoses”, poems in which humans are transformed into beasts by the gods. This commission unlocked something in him; a whole book of Ovid versions followed, all of them deft, swift, assured. Hughes was re-defining the Roman poet for a new generation, just as La Fontaine had transfigured Aesop in his 17th-century version of the fables.

In 1998, the year of his death, Hughes finally published the book he said he would never write. Those who had been expecting a kiss-and-tell about Plath were disappointed. Restrained, oblique, symbolic, tender, by turns ghoulish and melodramatic, “Birthday Letters” draws a portrait of a young woman whose life, from first to last, seems to be engulfed by death. The very best poem, “Daffodils”, however, is a marvellous celebration of the natural. For all his freelance myth-making, Hughes had remained, stubbornly, a poet—and perhaps even a force—of nature.

Collected Poems.
By Ted Hughes.
Farrar Straus and Giroux; 1376 pages; $50.
Faber and Faber; £40

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About sponsorship

Protest art in Zimbabwe

When laughter gets you locked up

Nov 6th 2003 | HARARE
From The Economist print edition

Fighting back with art

Bob's your captain

SATIRISTS in South Africa lost their best material when repressive white rule ended. At Johannesburg's Market Theatre, once a hot-bed of daring new political drama, the biggest audiences are still for re-runs of struggle plays. But as one door closes, another opens. In Zimbabwe democracy is fast succumbing to the buffoonish dictatorship of Robert Mugabe, prime stuff for artists and comedians.

Twice nightly in a small theatre in Harare, the capital, Edgar Langeveldt jokes about race, repression, economic collapse and invasions of white-owned farms by “war vets”. Dressed in drag, as a prostitute-turned-politician, he calls himself a “whore vet”. He is of mixed race and moans: “I'm half indigenous, but I haven't been given even half a farm.” The all-race audience hoots.

Mr Langeveldt is careful also to say naughty things about Britain's Tony Blair and Zimbabwe's white people. For good reason. Three years ago his jaw was smashed by a man who claimed to work for the government. The authorities are quicker to clamp down on musicians, probably because songs were so widely used to voice opposition to white rule. Thomas Mapfumo, who coined the musical style of *chimurenga*, the Shona word also used to describe the struggle for independence, was jailed for three months in 1977 because Rhodesia's leaders hated his revolutionary song “Watch Out”. Today he sings of Mr Mugabe's misrule. He is banned from state-controlled radio and television—the only sort there is—and his music is distributed by cassette instead.

Mr Mapfumo has gone abroad in disgust, as has Chaz Maviyane-Davies, a graphic designer whose most striking poster, pictured below, depicts a plane emblazoned with the ruling party initials hurtling towards Great Zimbabwe, a treasured heritage site which gave the country its name. It is easy to be outspoken at a safe distance; at home, artists are more careful, sometimes too much so. Temaru Gutsa's installation of corpse-like shapes wrapped in different ethnic cloth, last year, laid blame for the famine on all political parties. That is caution to the point of inaccuracy: Mr Mugabe's economic bungling and his thugs' violence caused the hunger.

If more speak out someone in the government might even listen. In the dying days of white rule in South Africa painters formed Artists Against Apartheid, and published a book of their work. An old copy was on sale in a Harare shop recently. Who had agreed to pen the introduction, fulminate against repression and praise the painters? Robert Gabriel Mugabe.

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About sponsorship

Franco Corelli

Nov 6th 2003
From The Economist print edition

Franco Corelli, a tempestuous tenor, died on October 29th, aged 82

IT IS not for nothing that the term “prima donna” is borrowed from the world of opera. Yet the best examples are by no means always women. Tenors have an equal, some would say a better, claim. Strutting round the stage like cockerels, hand on heart and waistcoat palpitating, they strike dread into managers the world over. For whereas sopranos are common creatures, and basses may be found in many a bar, a good tenor, able to range happily in the sublime grounds around middle C, is a rarity. Funds are plundered to hire them, and the star himself must be smoothed, cosseted and humoured as long as the run lasts.

Franco Corelli, one of the greatest tenors of his age, was also one of the most demanding. He insisted on steak tartare, well garnished with lemon and raw garlic, before his performances. He expected to be greeted at airports with appropriate honour, and once abandoned a season at the Paris Opera because there was no red carpet at Charles de Gaulle. At the New York Met, during the 1964 season, he delayed his entry in “Don Carlos” for several minutes in order to win a backstage spat with his wife.

Rudolph Bing, the Met's flamboyant manager, always said he had to talk to Mr Corelli first and sign him last, since weeks would pass while the star agonised. On one occasion, Bing had to persuade him to replace Carlo Bergonzi at short notice. He and a colleague went to Mr Corelli's room, only to pick the wrong one; an astonished elderly woman opened the door to find the two of them kneeling on the floor before her.

Being heckled or out-sung enraged him. When someone booed him during a performance of “Il Trovatore” in Naples, he left the stage and ran up three flights of stairs to throw himself on his tormentor. His debut at the Met, in 1961, was spoilt for him because it was also the debut of the American soprano Leontyne Price, who got most of the notices. A partnership with Boris Christoff in “Don Carlos” ended prematurely when the two, using their stage swords, tried actually to kill each other in the *auto da fé* scene.

Mr Corelli's approach to the music could be similarly egotistical. His *tempi* tended to reflect his emotions rather than the score. His speciality was to hold his splendid high notes very long indeed, until the audience erupted in a frenzy: he once held Caravadossi's “Vittoria!” in the second act of “Tosca” for a full 12 seconds, oblivious to what the orchestra required.

On tour in 1961, when Birgit Nilsson held her top C longer than he had, he simply walked off the stage. Rudolph Bing went to Mr Corelli's dressing room to find him screaming, his wife screaming and the dog barking; there was blood on the table, where the star had crashed down his hand in rage. Bing recommended that Mr Corelli could get his own back at Ms Nilsson in the third act, when he was meant to embrace her, by biting her ear. Some say he did, and that Ms Nilsson then demanded to be tested for rabies; Ms Nilsson herself says he didn't. But their duets, she admitted, were often more like bullfights.

Mr Corelli had more reason than most tenors to give himself airs. Not only was his voice a force of nature, likened by stunned critics to thunder, lightning and explosions, but he looked every inch the romantic lead. He was tall and muscular, with not a trace of tenorial stoutness. His looks were those of a matinee idol, with haunted eyes and slickly waved hair. For once, the raptures of a Mimi or a Violetta made sense. From 1961 to 1976 Mr Corelli was the darling of America, their “Apollo of *bel canto*”, as well as the toast of Paris and La Scala. In retirement, still a head-turner, he modelled evening wear for a

while.

Listening to Caruso

He had his critics. The son of a ship-worker in Ancona, on the Adriatic coast, he had never been trained properly and came to singing late. Friends at the local conservatoire encouraged him to abandon thoughts of being a naval engineer, and passed on their lecture notes.

At the age of 30 Mr Corelli went to teachers, but they outraged him. He called them “a plague” and blamed them for destroying his upper register, though he reclaimed it later. For a while it seemed that he was doomed to be a baritone. In the end he taught himself his trade, largely by listening to recordings by his idol Caruso. Imitation, he believed, was the key to his success. His Caruso collection was so well played that he had to replace it three times in ten years.

His devotion to Caruso revealed another side of him. For all the show, he had no great confidence in himself. “I have always been afraid,” he once said: afraid he did not have the high notes and, when he knew he had them, that he would lose them. He taped every performance, listening through for three hours rather than sleeping, just to check that his voice was still there.

More often than not he was also wrecked by stage-fright. It would take the hectoring of his wife Loretta, who was also his manager, to force him to perform. The fear in his eyes was, after all, no act. Behind the ego and the towering talent was a man who always needed to be reassured that he was any good. Perhaps more tenors than imagined feel the same.

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Overview

Nov 6th 2003
From The Economist print edition

America's GDP increased by an astonishing 7.2% annual rate in the third quarter, to give a gain of 3.3% over a year earlier. Growth is likely to slow sharply in the fourth quarter. Consumer spending fell by 0.6% in September as the boost from tax cuts faded. Vehicle sales also fell by 6.5% in October, following a 12% drop in September.

An economic recovery seems to be gathering pace in the **euro area**. The Reuters manufacturing purchasing managers' index (PMI) rose to a 15-month high in October. All the big euro-area economies now have PMIs above 50, indicating that output is rising. The PMI for the service sector rose to its highest level since December 2000. However, not all the news is good. German retail sales fell by 3.1% in the year to September. The labour market also remains weak: France's unemployment rate climbed to 9.7% in September, its highest level since April 2000. The average jobless rate in the euro area held steady at 8.8% in the same month.

The Reserve Bank of **Australia** became the first rich-country central bank to raise interest rates in this economic cycle. It lifted rates by a quarter point to 5%, its first change in 17 months, in an effort to rein in consumer debt and soaring house prices. Australia's unemployment rate fell to its lowest in nearly 14 years. Retail sales increased by 5.3% in the year to the third quarter, the second-fastest growth in our table after America's 8.3% increase.

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Output, demand and jobs

Nov 6th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.0	Q2	+ 0.5	+ 2.6	+ 3.7	+ 1.3	Q2	+ 5.3	Q3	5.6	Oct	6.0
Austria	+ 0.7	Q2	+ 1.1	+ 0.7	+ 1.8	+ 5.4	Feb	– 4.0	Aug	4.5	Sep	4.3
Belgium	+ 0.8	Q2	– 0.4	+ 0.9	+ 1.8	– 4.0	Aug	– 3.6	Aug	13.2	Sep†	12.0
Britain	+ 1.9	Q3	+ 2.3	+ 2.0	+ 2.7	– 1.0	Sep	+ 3.9	Sep	5.0	Aug††	5.2
Canada	+ 1.6	Q2	– 0.3	+ 2.0	+ 3.0	+ 1.5	Jul	+ 3.6	Jul	8.0	Sep	7.7
Denmark	– 1.0	Q2	– 2.2	+ 0.8	+ 2.0	+ 1.0	Aug	+ 3.4	Aug	6.3	Sep	5.3
France	– 0.3	Q2	– 1.3	+ 0.2	+ 1.7	– 1.8	Aug	– 2.2	May	9.7	Sep	9.1
Germany	– 0.2	Q2	– 0.2	nil	+ 1.6	– 3.2	Aug	– 3.1	Sep‡	10.5	Oct§	9.9
Italy	+ 0.3	Q2	– 0.3	+ 0.4	+ 1.6	+ 1.7	Aug	– 0.4	Jul	8.5	Jul	9.0
Japan	+ 3.0	Q2	+ 3.9	+ 2.6	+ 1.8	+ 3.4	Sep	– 2.6	Jul	5.1	Sep	5.4
Netherlands	– 1.2	Q2	– 2.4	– 0.6	+ 1.1	– 1.2	Sep	– 3.6	Jul	5.4	Sep**	4.2
Spain	+ 2.3	Q2	+ 2.7	+ 2.2	+ 2.8	+ 2.0	Sep	+ 2.0	Aug	11.4	Aug	11.4
Sweden	+ 1.1	Q2	+ 1.1	+ 1.5	+ 2.3	+ 3.0	Aug	+ 3.8	Sep	4.8	Sep†	4.2
Switzerland	– 1.0	Q2	– 1.2	– 0.5	+ 1.4	– 2.8	Q2	– 3.2	Aug	3.7	Sep†	2.6
United States	+ 3.3	Q3	+ 7.2	+ 2.8	+ 3.9	– 0.6	Sep	+ 8.3	Sep	6.1	Sep	5.7
Euro area	+ 0.2	Q2	– 0.3	+ 0.4	+ 1.8	+ 0.1	Aug	– 0.9	Aug	8.8	Sep	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 0.8	Q2	+ 2.4	na	na	+ 1.4	Sep	+ 5.6	Aug	8.0	Sep†	8.1
Greece	+ 4.5	Q2	+ 0.4	na	na	+ 2.1	Jul	na		na		na
Iceland	+ 2.7	Q2	na	na	na	– 0.3	2002	na		2.7	Sep†	2.2
Ireland	+ 2.1	Q2	na	na	na	+15.5	Aug	+ 0.4	Aug	4.4	Sep	4.3
Luxembourg	+ 1.1	2002	na	na	na	+ 9.5	Aug	– 0.1	May	3.9	Sep	3.0
New Zealand	+ 2.0	Q2	– 0.5	na	na	+ 2.5	Q2	+ 5.1	Q2	4.7	Q2	5.2
Norway	– 2.0	Q2	– 0.6	na	na	– 4.7	Aug	+ 5.3	Sep	4.7	Q3	3.8
Portugal	– 2.3	Q2	+ 0.5	na	na	+ 2.3	Sep	– 0.3	Sep	6.2	Q2†	4.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Jun-Aug; claimant count rate 3.1% in Sep. §EU harmonised rate 9.3% in Oct. **Jul-Sep.

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Prices and wages

Nov 6th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.6	Q3	+ 3.2	+ 2.7	+ 2.3	– 0.1	Q3	– 0.2	+ 5.5	Q2	+ 3.7
Austria	+ 1.4	Sep	+ 1.6	+ 1.3	+ 1.1	+ 2.0	Oct	+ 0.3	+ 2.3	Sep	+ 2.3
Belgium	+ 1.6	Oct	+ 1.3	+ 1.5	+ 1.3	– 1.9	Sep	+ 0.8	+ 1.9	Q3	+ 2.1
Britain	+ 2.8	Sep	+ 1.7	+ 2.7	+ 2.4	+ 1.5	Sep	+ 0.2	+ 3.4	Aug	+ 3.8
Canada	+ 2.2	Sep	+ 2.3	+ 2.7	+ 1.7	– 2.6	Sep	+ 0.6	+ 4.6	Jul	+ 2.9
Denmark	+ 1.9	Sep	+ 2.4	+ 2.2	+ 1.6	– 0.5	Sep	– 0.3	+ 3.8	Q2	+ 3.7
France	+ 2.1	Sep	+ 1.8	+ 2.0	+ 1.5	+ 0.2	Sep	+ 0.3	+ 2.7	Q2	+ 3.9
Germany	+ 1.1	Oct	+ 1.3	+ 1.1	+ 0.9	+ 0.6	Sep	+ 0.3	+ 2.2	Aug	+ 2.9
Italy	+ 2.6	Oct	+ 2.7	+ 2.7	+ 2.1	+ 1.0	Sep	+ 0.9	+ 2.7	Sep	+ 2.1
Japan	– 0.2	Sep	– 0.7	– 0.3	– 0.3	– 0.5	Sep	– 2.0	+ 1.3	Sep	+ 1.4
Netherlands	+ 2.0	Sep	+ 3.1	+ 2.3	+ 1.7	+ 1.1	Sep	+ 1.1	+ 2.6	Sep	+ 3.4
Spain	+ 2.9	Sep	+ 3.5	+ 3.1	+ 2.7	+ 0.8	Sep	+ 1.0	+ 4.2	Q2	+ 4.0
Sweden	+ 1.7	Sep	+ 1.9	+ 2.1	+ 1.7	– 1.5	Sep	– 0.7	+ 3.2	Aug	+ 2.9
Switzerland	+ 0.5	Oct	+ 1.3	+ 0.6	+ 0.5	– 0.4	Sep	– 1.2	+ 1.8	2002	+ 2.5
United States	+ 2.3	Sep	+ 1.5	+ 2.3	+ 1.4	+ 3.5	Sep	– 1.8	+ 2.7	Sep	+ 2.9
Euro area	+ 2.1	Oct	+ 2.3	+ 2.0	+ 1.6	+ 1.1	Sep	+ 0.2	+ 2.9	Q2	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.7	Sep	+ 1.0	na	na	– 0.8	Sep	– 0.8	+ 4.3	Q2	+ 3.9
Greece	+ 3.3	Aug	+ 3.5	na	na	+ 2.2	Aug	+ 2.1	na		na
Iceland	+ 2.2	Oct	+ 2.9	na	na	+ 3.7	Oct	+ 6.2	+ 5.6	Sep	+ 5.8
Ireland	+ 2.9	Sep	+ 4.5	na	na	– 7.8	Sep	– 1.7	+ 8.7	Q2	+ 3.5
Luxembourg	+ 2.1	Sep	+ 2.0	na	na	+ 0.3	Aug	– 0.2	+ 2.2	Aug	– 1.6
New Zealand	+ 1.5	Q3	+ 2.6	na	na	– 2.0	Q2	+ 1.5	+ 2.3	Q2	+ 2.1
Norway	+ 2.1	Sep	+ 1.4	na	na	– 0.5	Sep	– 5.0	+ 5.4	Q2	+ 4.9
Portugal	+ 3.1	Sep	+ 3.7	na	na	– 0.3	Sep	+ 0.1	– 1.7	Aug	– 0.6

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Economic forecasts

Nov 6th 2003
From The Economist print edition

The Economist poll of forecasters, November averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2003	2004	2003	2004	2003	2004	2003	2004
Australia	2.3/3.5	3.1/4.3	2.6 (2.8)	3.7 (3.6)	2.7 (2.8)	2.3 (2.4)	–5.6	–4.9 (–5.0)
Austria	0.4/1.1	1.2/2.2	0.7 (0.6)	1.8 (1.7)	1.3	1.1 (1.2)	nil (0.2)	–0.1 nil
Belgium	0.5/1.3	1.3/2.5	0.9 (0.8)	1.8	1.5 (1.4)	1.3	4.7 (4.6)	4.8 (4.6)
Britain	1.8/2.2	2.0/3.5	2.0 (1.7)	2.7 (2.5)	2.7	2.4 (2.3)	–1.7(–1.1)	–1.5
Canada	1.8/2.8	2.4/3.9	2.0	3.0	2.7	1.7 (1.9)	1.7	1.4 (1.6)
Denmark	0.3/1.3	1.8/2.3	0.8 (1.0)	2.0 (2.1)	2.2	1.6 (1.8)	2.7 (2.8)	2.7 (2.6)
France	0.1/0.4	1.0/2.8	0.2 (0.4)	1.7 (1.8)	2.0	1.5 (1.4)	1.4 (1.5)	1.4 (1.5)
Germany	–0.1/0.1	0.9/2.1	nil	1.6 (1.5)	1.1 (1.0)	0.9 (0.7)	2.0	2.0 (1.9)
Italy	0.3/0.6	0.7/2.2	0.4	1.6	2.7	2.1 (2.0)	–0.8	–0.7 (–0.6)
Japan	2.3/3.0	0.6/3.2	2.6 (2.5)	1.8 (1.9)	–0.3	–0.3 (–0.2)	2.8	2.9
Netherlands	–0.9/–0.3	0.8/1.8	–0.6 (–0.5)	1.1 (1.3)	2.3	1.7	2.3 (2.2)	2.6 (2.7)
Spain	2.1/2.4	2.2/3.5	2.2 (2.1)	2.8	3.1 (3.0)	2.7 (2.5)	–2.4	–2.2
Sweden	1.1/1.8	1.8/2.6	1.5	2.3	2.1 (2.2)	1.7	4.1	4.1 (3.9)
Switzerland	–0.7/nil	0.8/2.2	–0.5 (–0.4)	1.4 (1.3)	0.6	0.5 (0.6)	11.0(10.6)	11.0 (10.8)
United States	2.3/3.0	2.6/4.6	2.8 (2.6)	3.9 (3.7)	2.3 (2.2)	1.4	–5.1(–5.3)	–5.3 (–5.5)
Euro area	0.2/0.5	1.3/2.6	0.4 (0.5)	1.8	2.0	1.6 (1.5)	0.4	0.5

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordea, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month *The Economist* calculates the average of a group of forecasters' predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where different, are shown in brackets. America is now tipped to grow this year by 2.8%, up from 2.6% in October; and next year by 3.9%, up from 3.7% . The panel has also raised its growth forecast for Britain in both 2003 and 2004. However, it now expects the euro area to grow this year by 0.4%, down from 0.5% in October. The Netherlands will be the worst performer of the 15 economies in both years. Our forecasters expect Japan to grow a little faster this year but a bit more slowly in 2004. They have shaved America's current-account deficit as a percentage of GDP for both years.

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Money and interest rates

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From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Nov 5th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.8	+12.9	Sep	5.11	4.88	5.51	5.82	5.67	6.55
Britain	+ 7.7	+ 7.4	Sep	3.92	3.88	4.59	4.99	4.68	5.77
Canada	+ 8.5	+ 5.5	Sep	2.69	2.74	3.27	4.90	5.15	6.39
Denmark	+ 5.1	+ 6.2	Sep	2.10	3.50	2.97	4.48	4.75	5.58
Japan	+ 5.8	+ 1.8	Sep	0.02	0.02	0.15	1.52	0.99	1.60
Sweden	+ 3.2	+ 4.9	Sep	2.72	4.03	3.26	4.89	5.11	4.01
Switzerland	+22.3	+ 7.8	Sep	0.26	0.74	-0.09	2.72	2.57	2.75
United States	+ 8.1	+ 7.2	Sep	1.03	1.49	1.93	4.35	4.03	5.93
Euro area†	+11.3	+ 7.4	Sep	2.16	3.21	2.72	4.31	4.56	4.30

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.18%, Japan No. 254 1.52%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 6th 2003
From The Economist print edition

1995=100

	Oct 28th	Nov 4th*	% change on one month	% change on one year
Dollar index				
All items	86.0	86.3	+ 5.9	+13.3
Food	85.6	85.7	+ 5.8	+ 6.7
Industrials				
All	86.4	87.2	+ 6.1	+23.7
Nfa†	90.6	89.9	+ 4.4	+24.2
Metals	82.9	84.9	+ 7.8	+23.1
Sterling index				
All items	80.0	81.1	+ 5.3	+ 5.5
Euro index				
All items	96.7	98.7	+ 8.4	– 1.4
Yen index				
All items	99.1	100.6	+ 5.8	+ 1.8
Gold				
$ per oz	383.85	379.75	+ 0.9	+19.3
West Texas Intermediate				
$ per barrel	29.52	28.85	– 5.1	+10.6

* Provisional. † Non-food agriculturals.

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Stockmarkets

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From The Economist print edition

Market indices

	Nov 5th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,255.8	3,310.6	2,673.3	– 0.6	– 5.4	+ 9.4	+38.2
Austria (ATX)	1,434.8	1,448.0	1,120.2	+ 1.9	–17.4	+24.8	+36.6
Belgium (Bel 20)	2,172.2	2,172.2	1,426.6	+ 2.6	–41.0	+ 7.3	+17.4
Britain (FTSE 100)	4,303.4	4,368.8	3,287.0	+ 0.9	–37.9	+ 9.2	+14.1
Canada (Toronto Composite)	7,867.7	7,867.7	6,228.6	+ 1.8	–30.9	+18.9	+41.3
Denmark (KBX)	219.5	222.6	145.0	– 0.1	–27.3	+32.0	+44.3
France (SBF 250)	2,323.0	2,348.7	1,630.1	+ 1.0	–47.1	+13.1	+23.8
(CAC 40)	3,393.3	3,439.1	2,403.0	+ 0.8	–51.0	+10.7	+21.2
Germany (DAX)	3,717.7	3,744.5	2,203.0	+ 2.9	–53.9	+28.5	+40.7
Italy (BCI)	1,225.6	1,229.8	959.4	+ 1.8	–43.8	+12.2	+22.9
Japan (Nikkei 225)	10,837.5	11,161.7	7,607.9	+ 0.9	–72.2	+26.3	+36.3
(Topix)	1,063.3	1,105.6	770.6	+ 0.6	–63.1	+26.1	+36.1
Netherlands (AEX)	336.0	342.2	218.4	+ 3.2	–52.1	+ 4.1	+14.0
Spain (Madrid SE)	762.2	768.6	576.8	+ 2.2	–33.5	+20.2	+31.6
Sweden (Affarsvarlden Gen)	181.3	183.4	127.8	– 0.7	–54.7	+24.8	+38.3
Switzerland (Swiss Market)	5,203.2	5,422.6	3,675.4	+ 0.5	–38.1	+12.4	+13.9
United States (DJIA)	9,820.8	9,858.5	7,524.1	+ 0.5	–16.2	+17.7	+17.7
(S&P 500)	1,051.8	1,059.0	800.7	+ 0.4	–31.1	+19.5	+19.5
(NASDAQ Comp)	1,959.4	1,967.7	1,271.5	+ 1.2	–61.2	+46.7	+46.7
Europe (FTSE Eurotop 300)*	927.5	937.9	682.7	+ 1.3	–45.6	+ 8.2	+18.5
Euro area (FTSE Ebloc 100)*	794.5	801.8	565.7	+ 1.9	–48.8	+10.6	+21.0
World (MSCI)†	964.1	967.1	710.8	nil	–33.5	+21.7	+21.7
World bond market (Citigroup)‡	566.5	583.9	518.6	– 1.6	– 3.0	+ 7.8	+ 7.8

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

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From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2003	Current account The Economist poll % of GDP, forecast 2004	Exchange rate trade-weighted† 1990=100 Nov 5th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Nov 5th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2003‡
Australia	− 13.5 Sep	− 24.4 Q2	− 5.6	− 4.9	86.4	74.8	1.41	1.78	2.37	1.62	1.28	0.2
Austria	− 0.4 Jul	+ 0.9 Aug	nil	− 0.1	102.6§	100.8	0.87	1.00	1.46	–	0.79	-1.3
Belgium	+ 19.9 Aug	+ 11.2 Jun	+ 4.7	+ 4.8	102.6§	100.0	0.87	1.00	1.46	–	0.79	nil
Britain	− 72.2 Aug	− 28.6 Q2	− 1.7	− 1.5	101.6	105.4	0.59	0.64	–	0.68	0.54	-1.9
Canada	+ 40.7 Aug	+ 14.7 Q2	+ 1.7	+ 1.4	87.4	76.3	1.33	1.56	2.24	1.53	1.21	1.1
Denmark	+ 9.4 Aug	+ 5.9 Aug	+ 2.7	+ 2.7	105.7	103.3	6.47	7.45	10.9	7.44	5.89	1.6
France	+ 5.5 Aug	+ 21.5 Aug	+ 1.4	+ 1.4	106.0§	102.9	0.87	1.00	1.46	–	0.79	-3.6
Germany	+136.4 Aug	+ 53.0 Aug	+ 2.0	+ 2.0	103.5§	99.9	0.87	1.00	1.46	–	0.79	-3.7
Italy	+ 2.5 Aug	− 18.8 Aug	− 0.8	− 0.7	75.6§	73.4	0.87	1.00	1.46	–	0.79	-2.4
Japan	+ 96.2 Aug	+119.0 Aug	+ 2.8	+ 2.9	137.5	131.7	110	122	185	126	–	-7.7
Netherlands	+ 30.4 Aug	+ 15.1 Q2	+ 2.3	+ 2.6	102.1§	99.1	0.87	1.00	1.46	–	0.79	-1.6
Spain	− 48.0 Jul	− 22.4 Jul	− 2.4	− 2.2	76.9§	75.0	0.87	1.00	1.46	–	0.79	-0.4
Sweden	+ 17.1 Sep	+ 11.1 Q2	+ 4.1	+ 4.1	81.4	78.0	7.87	9.14	13.2	9.03	7.15	0.7
Switzerland	+ 6.0 Sep	+ 35.0 Q2	+11.0	+11.0	109.7	115.0	1.36	1.47	2.30	1.57	1.24	na
United States	−537.8 Aug	−528.7 Q2	− 5.1	− 5.3	99.8	113.3	–	–	1.68	1.15	0.91	-4.6
Euro area	+ 82.9 Aug	+ 34.7 Aug	+ 0.4	+ 0.5	88.7	82.6	0.87	1.00	1.46	–	0.79	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.5 Aug	+ 9.6 Aug	na	na	81.5§	79.0	0.87	1.00	1.46	–	0.79	3.1
Greece	− 24.3 Aug	− 10.6 Aug	na	na	59.2§	58.0	0.87	1.00	1.46	–	0.79	-1.0
Iceland	− 0.1 Aug	− 0.2 Q2	na	na	95.0**	93.0	76.3	87.1	128	87.6	69.4	nil
Ireland	+ 37.5 Aug	− 2.1 Q2	na	na	94.2§	89.1	0.87	1.00	1.46	–	0.79	-0.8
Luxembourg	− 3.3 Aug	+ 1.5 Q2	na	na	102.6§	100.0	0.87	1.00	1.46	–	0.79	0.2
New Zealand	− 1.7 Sep	− 2.9 Q2	na	na	100.8	90.1	1.62	2.02	2.73	1.86	1.47	0.8
Norway	+ 27.0 Sep	+ 26.7 Jul	na	na	96.4	105.7	7.19	7.39	12.1	8.26	6.54	11.3
Portugal	− 12.5 Jul	− 7.7 Jul	na	na	93.6**	91.2	0.87	1.00	1.46	–	0.79	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, September average. ‡OECD forecast. **IMF, July average.

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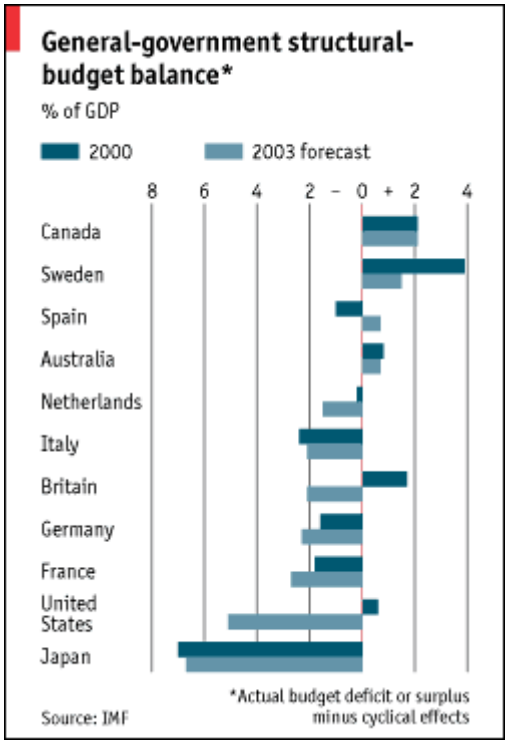
About sponsorship

General-government structural budget balance

Nov 6th 2003
From The Economist print edition



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Overview

Nov 6th 2003
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Turkey saw its lowest monthly rate of inflation for almost 30 years in October. Consumer prices rose by 1.4% from September and by 20.8% from a year earlier. Share prices jumped by 12% during the week.

Venezuela's 12-month rate of inflation slowed to 25.6% in October. Industrial production fell by 13.6% in the year to August.

Industrial production in **Thailand** rose by 10.5% in the year to September.

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Growth competitiveness

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Finland has supplanted America as the most competitive economy in the world, according to the World Economic Forum's latest *Global Competitiveness Report*. This imprimatur is based on an index designed to capture the main factors—the macroeconomic environment, public institutions and technology—that will determine a country's economic prospects over the next few years. Finland has won top place because of its overall strength in all three areas.

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Economy

Nov 6th 2003
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.1	Q3	+16.3	Sep	+ 1.1	Sep	+19.6	Sep	+35.4	2002	383.9	Sep
Hong Kong	– 0.5	Q2	–12.5	Q2	– 3.2	Sep	– 6.9	Sep	+18.4	Q2	112.1	Sep
India	+ 5.7	Q2	+ 5.2	Aug	+ 2.9	Sep	–12.4	Sep	+ 2.8	Q2	85.6	Sep
Indonesia	+ 4.1	Q3	+ 4.7	Jul	+ 6.2	Oct	+26.1	Sep	+ 6.7	Q1	32.8	Sep
Malaysia	+ 4.4	Q2	+ 6.7	Aug	+ 1.1	Sep	+17.4	Sep	+10.1	Q2	37.7	Sep
Philippines	+ 3.2	Q2	+ 7.0	Aug	+ 3.1	Oct	– 1.6	Aug	+ 2.8	Jul	12.8	Sep
Singapore	+ 1.0	Q3	+ 6.3	Sep	+ 0.7	Sep	+15.0	Sep	+23.8	Q2	91.1	Sep
South Korea	+ 1.9	Q2	+ 6.6	Sep	+ 3.7	Oct	+12.8	Oct	+ 6.9	Sep	141.5	Sep
Taiwan	– 0.4	Q2	+ 7.5	Sep	– 0.1	Oct	+18.1	Sep	+26.9	Q2	196.6	Oct
Thailand	+ 5.8	Q2	+10.5	Sep	+ 1.2	Oct	+ 4.6	Sep	+ 8.5	Sep	39.3	Sep
Argentina	+ 7.6	Q2	+10.8	Sep	+ 3.9	Oct	+17.3	Sep	+10.2	Q2	13.4	Sep
Brazil	– 1.3	Q2	– 1.8	Aug	+15.1	Sep	+23.4	Oct	+ 3.6	Sep	47.8	Aug
Chile	+ 2.7	Q2	+ 5.8	Sep	+ 1.2	Oct	+ 2.8	Sep	– 0.8	Q2	15.3	Aug
Colombia	+ 2.0	Q2	– 1.2	Aug	+ 7.1	Sep	– 0.1	Aug	– 1.7	Q2	10.7	Sep
Mexico	+ 0.2	Q2	– 2.9	Aug	+ 4.0	Sep	– 6.4	Sep	–11.5	Q2	52.1	Sep
Peru	+ 3.1	Aug	+ 1.4	Aug	+ 1.3	Oct	+ 0.4	Aug	– 1.2	Q2	9.8	Sep
Venezuela	– 9.4	Q2	–13.6	Aug	+25.6	Oct	+14.6	Q2	+ 9.3	Q2	12.8	Jun
Egypt	+ 3.1	2003†	+ 4.2	2002†	+ 4.5	Aug	– 7.1	Mar	+ 1.9	Q2	13.6	Jun
Israel	– 0.3	Q2	– 0.9	Aug	– 1.9	Sep	– 6.5	Sep	nil	Q2	24.9	Oct
South Africa	+ 1.8	Q2	– 4.9	Aug	+ 3.7	Sep	+ 3.2	Sep	– 0.9	Q2	6.5	Sep
Turkey	+ 3.9	Q2	+10.3	Aug	+20.8	Oct	–19.3	Aug	– 4.7	Aug	33.9	Sep
Czech Republic	+ 2.1	Q2	+ 2.7	Aug	nil	Sep	– 2.3	Sep	– 5.0	Q2	25.6	Sep
Hungary	+ 2.4	Q2	+ 9.4	Aug	+ 4.7	Sep	– 3.8	Aug	– 5.0	Aug	12.8	Sep
Poland	+ 3.8	Q2	+11.1	Sep	+ 0.9	Sep	–10.1	Sep	– 4.8	Sep	31.6	Sep
Russia	+ 7.2	Q2	+ 8.0	Sep	+14.9	Oct	+55.7	Aug	+38.0	Q3	58.3	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 3.5	Q2	+ 9.7	Sep	+ 1.4	Sep	– 1.8	Sep	– 1.2	Q2	1.2	Jul
Latvia	+ 6.2	Q2	– 0.6	Aug	+ 3.1	Sep	– 1.8	Aug	– 0.9	Aug	1.3	Jul
Lithuania	+ 6.7	Q2	na		– 0.8	Sep	– 2.4	Aug	– 0.9	Q2	2.7	Jul
Slovakia	+ 3.8	Q2	+ 3.9	Sep	+ 9.6	Oct	– 1.2	Sep	+ 1.1	Jul	10.4	Jul
Slovenia	+ 2.1	Q2	+ 3.4	Sep	+ 4.8	Oct	– 0.5	Jul	+ 0.1	Aug	7.8	Jul
Pakistan	+ 5.1	2003†	+15.8	Nov	+ 2.2	Sep	– 1.1	Sep	+ 4.0	Q2†	9.9	Sep
Saudi Arabia	+ 1.0	2002	na		– 1.2	Jul	+41.8	2002	+11.7	2002	21.1	Jul

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

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From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 5th		Dec 31st 2002	
	Nov 5th	year ago	Nov 5th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.9	na	1,448.5	+1.6	+ 2.1	+ 2.1
Hong Kong	7.77	7.80	13.1	0.50	12,438.9	+2.5	+ 33.4	+ 34.0
India	45.3	48.3	76.2	4.94	5,064.9	+6.8	+ 50.0	+ 58.8
Indonesia	8,475	9,211	14,260	8.75	635.8	+1.8	+ 49.6	+ 58.0
Malaysia	3.80	3.80	6.39	3.05	813.5	+0.4	+ 25.9	+ 25.9
Philippines	55.2	53.0	92.9	8.13	1,430.9	+4.8	+ 40.5	+ 35.9
Singapore	1.74	1.77	2.93	0.88	1,777.3	+3.2	+ 32.5	+ 32.2
South Korea	1,187	1,227	1,996	4.15	805.5	+3.3	+ 28.4	+ 28.3
Taiwan	34.0	34.6	57.2	1.05	6,142.3	+0.8	+ 38.0	+ 41.0
Thailand	39.9	43.3	67.1	1.35	673.7	+8.0	+ 89.0	+104.2
Argentina	2.86	3.54	4.81	4.94	965.9	+2.4	+ 84.0	+116.7
Brazil	2.86	3.60	4.82	18.85	18,307.1	+2.0	+ 62.5	+100.9
Chile	628	719	1,056	2.76	7,161.5	−5.1	+ 42.7	+ 63.7
Colombia	2,858	2,759	4,808	7.82	2,188.1	+1.9	+ 36.0	+ 36.5
Mexico	11.0	10.2	18.5	4.48	8,232.1	+3.9	+ 34.4	+ 27.9
Peru	3.47	3.61	5.85	2.81	2,105.9	−0.5	+ 51.3	+ 53.1
Venezuela	1,598	1,377	2,689	18.11	22,333.0	+12.6	+178.6	+141.8
Egypt	6.15	4.63	10.34	6.89	11,077.9	+1.2	+106.2	+ 55.4
Israel	4.49	4.71	7.55	2.63	493.1	+3.0	+ 48.3	+ 57.1
South Africa	6.94	9.9	11.7	8.15	9,792.2	+1.0	+ 5.6	+ 30.5
Turkey	1,487,500	1,652,000	2,502,868	25.00	16,408.3	+11.8	+ 58.2	+ 76.6
Czech Republic	27.8	30.9	46.9	2.06	644.0	+3.0	+ 39.8	+ 51.0
Hungary	224	240	377	9.78	9,721.6	+2.5	+ 24.7	+ 25.0
Poland	4.02	3.97	6.77	5.67	20,399.0	−0.2	+ 42.0	+ 35.3
Russia	29.8	31.8	50.2	16.00	540.7‡	nil	+ 50.6	+ 40.5
EMF (MSCI)*	1.00	1.00	1.68	na	417.6	+2.1	+ 43.0	+ 43.0
EMBI+†	1.00	1.00	1.68	na	283.4	+0.7	+ 23.8	+ 23.8

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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